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THE MONETARY QUESTION

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THE

MONETARY QUESTION

AN ESSAY WHICH OBTAINED THE PRIZE OFFERED BY
SIR H. M. MEYSEY-THOMPSON, BART.
AT THE PARIS MONETARY CONGRESS OF 1889

BY

G. M. BOISSEVAIN

FELLOW OF THE LONDON INSTITUTE OF BANKERS. MEMBER OF THE COUNCIL OF THE INSTITUTE OF STATISTICS AT AMSTERDAM AND CORRESPONDENT OF THE SOCIETY OF POLITICAL ECONOMY AT PARIS AND OF THE MANCHESTER STATISTICAL SOCIETY

TRANSLATED FROM THE FRENCH BY

G. TOWNSEND WARNER

FELLOW OF JESUS COLLEGE, CAMBRIDGE

London
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1891

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'Modern Society could not exist in its present complex form without the means which money constitutes of valuing, distributing, and contracting for commodities of various kinds.'

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STANLEY JEVONS.

Money and the Mechanism of Exchange.

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PREFACE

THE author of the following pages had nearly completed the essay he was proposing to send in for the prize offered at the Paris Monetary Congress by M. Cernuschi, with whom on that occasion Sir Henry Meysey-Thompson had associated himself and offered a second prize, when he learnt from a Note inserted in the Report of the Congress that Sir Henry Meysey-Thompson had afterwards come to the conclusion that it would be better that he should give his prize separately, for the best essay on the advantages to be expected from a bimetallic system.

Now it happened that the author had conceived his task, and consequently constructed his essay, in a way which allowed him to use it as well in response to the new offer of Sir H. Meysey-Thompson as to the original proposal of M. Cernuschi. What was he to do in these circumstances? Was he to set to work again in order to divide his essay into two, so that he might adapt each more precisely to the different programmes? Had he wished to adopt this plan, want of time would have prevented him. But he owns that even if it had

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not been physically impossible for him to take such a course, he would have been sorry to do so.

His work forms a whole. Whatever criticisms may be passed upon its execution, it is a work of conviction, and, as such, complete in itself; and he was therefore unwilling to divide it.

Consequently, he determined to present the essay, just as it was, both for M. Cernuschi's prize and for the one offered by Sir H. Meysey-Thompson.

In the contest for M. Cernuschi's prize, the honours fell to M. Rochussen. The author of the present treatise has not the slightest wish to quarrel with this decision. M. Rochussen and he treated the subject in an entirely different manner. M. Rochussen has made rather an academic study of it, and has treated the monetary question in a much more abstract way. As is explained below, this is not the way in which the present writer understood the subject announced. He willingly, however, congratulates his competitor for the Cernuschi prize on the manner in which he has acquitted himself of his task on the lines he had laid down. And he is glad to be able to state that, whatever differences there may be between the two essays, M. Rochussen and he are entirely in agreement on the fundamental aspects of the question.

The author has now obtained the prize offered by Sir Henry Meysey-Thompson.

He regards this as a very great honour: he freely confesses that it is a source of pride and satisfaction to

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him. The approval of his work by persons so competent as Sir H. Meysey-Thompson himself, and the three judges to whom he had entrusted the examination of the essays sent in, is to him an indubitable proof of the correctness of his judgment on the problem in question.

Strong in this approval, the author permits himself now to present his essay to the public in general, and especially to the persons to whom he directly addresses it; having added to it, with the consent of Sir H. Meysey-Thompson, an Appendix. He ardently hopes that by his labours he may contribute to the triumph of a cause which is dear to him—a triumph which he considers of the highest importance to the general welfare.

AMSTERDAM, 25*th November* 1890.

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SUBJECT OF THE PRIZE

M. CERNUSCHI, in writing to inform M. Magnin of the prize he proposed to offer for an essay on the monetary question, described its subject in the following terms :—

"What would be the present and future relative "value of silver and gold if the following monetary "system were simultaneously introduced and put into "operation in England, Germany, the United States, "and France?

1. "Free and gratuitous coinage.
2. "The monetary unit bimetallic — the *Juste*. "The *Juste* in silver to be of the weight and "fineness of the five-franc piece. The *Juste* in "gold to be of the weight and fineness of the "United States dollar."

M. Cernuschi further remarked, at the sitting of the Monetary Congress when his letter was read by M. Magnin, that it would be seen that the problem, as he had stated it, avoided all questions of a merely statistical or academic nature. It was stated so simply that any one might understand it; and he trusted that the offer of the prize would lead to a thorough discussion of the whole matter.

If I rightly understand M. Cernuschi's intention, a direct answer must be given to the question thus stated

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by him; with a full exposition, of course, of the reasonings on which that answer rests. And, further, account must be taken of the main arguments on the other side, and especially of those which have been most recently brought forward. It is clear, however, that M. Cernuschi did not want this competition to result in the production of an academic work on money, starting from the most elementary principles, and thence working down to the actual situation of to-day; nor did he expect a revision and restatement of all the statistics bearing on the matter. If this were what was intended, a book, and a large one too, would be wanted instead of the essay which he invites. The question might fairly be asked, too, whether such a work would be of any service. It would rather seem that for the present, at least, there is no room for any further discussion of an academic character. After the minute and complete investigations made by the English Gold and Silver Commission, and the issue of their Final Report, there is really nothing more to be done in this direction; especially as we have since had the meetings of the Paris Monetary Congress, at which the most distinguished members of the older school of French economists have stated their points of view and the nature of their objections to the results arrived at by the English Commission.

As M. Cernuschi says, time presses. Definite action must be taken. And I cannot better comply with the wishes of the founders of these prizes than by addressing myself at once to the real practical points at issue. I shall therefore take the question as it has been formulated by M. Cernuschi, and answer it without further preliminary. But in doing so there are two things with which we shall be concerned, which it will be well to

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distinguish. There is first of all the monetary system, of which what M. Cernuschi proposes is an application —not of course the only application; and secondly, there is this application itself.

I propose, then, first to deal with the system in question, apart from any special application of it, and afterwards to consider what is to be said of the particular form of it suggested by M. Cernuschi.

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CHAPTER I

THE THEORY OF BIMETALLISM

We all know that the system which M. Cernuschi wishes to see adopted is the bimetallic system. He desires that for the future the two precious metals, gold and silver, should perform the functions of money on a perfectly equal footing. This means, not the adoption of one standard by some nations and another by others; but that the two metals be simultaneously adopted everywhere, or at any rate over an area sufficiently wide to determine the monetary status of the two metals and their relative value throughout the whole world. To bring this about he proposes that by an international convention or agreement free mintage should be given for silver just the same as for gold, and that full legal tender power should be given to both metals at a fixed ratio of value.

This is of course the bimetallic system, or rather the basis of it. We find a similar statement of it in the notice of the prize which, following that of M. Cernuschi, was offered by Sir H. Meysey Thompson. The notice is as follows:—

"A prize will be given to the author of the best essay on the subject of the advantages which might be expected from the simultaneous adoption of a bimetallic

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system by France, Germany, the United States, Holland, Belgium, Italy, and England under these conditions:

1. Free mintage of both gold and silver without expense to the public.
2. Full legal tender power for gold and silver in a certain proportion to be fixed by the said nations."

I may say that I am absolutely convinced of the advantages of such a system.

It is in my opinion the only system by which it is possible to obtain monetary unity in the commercial world taken as a whole. At the same time it is a system which will ensure in the best and most certain manner the stability of the value of money so far as that can be attained. And finally, to look no further than the individual interest of each nation, it is the system which, better than any other, will give us a monetary organisation sound in itself and whose efficiency is likely to be permanent.

I will proceed to explain the three points I have just stated, and I shall be careful not to forget to direct attention, from these various points of view, to the great importance of the results obtained by putting the system in practice.

But first of all we must pause over the initial difficulty of ascertaining if the bimetallic system really rests on a scientific basis, and is sufficiently well adapted to the actual situation for us to be able to say that it will not break down in practice. For I need hardly say all that is still in dispute. Yet let me say at once it is not from the anti-bimetallist party of the Gold and Silver Commission that this opposition comes. On the contrary, we read in paragraph 107 of the

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Final Report, Part II, that is to say, the special report of the six members of the Commission who pronounced against the adoption of bimetallism and in favour of abstaining from all fundamental change in the English monetary system, the following :—

"We think that in any conditions fairly to be contemplated in the future, so far as we can forecast them from the experience of the past, a stable ratio might be maintained if the nations we have alluded to were to accept and strictly adhere to bimetallism at the suggested ratio. We think that if in all these countries gold and silver could be freely coined and thus become exchangeable against commodities at the fixed ratio, the market value of silver as measured by gold would conform to that ratio and not vary to any material extent."[1]

The attacks on the very basis of the bimetallic system have come lately from two different quarters. At the Paris Monetary Congress several most prominent speakers declared war on the system; two of them, indeed, openly attacked it in principle, while two others, although they did not go so far as the first, none the less raised fundamental objections. In England the eminent statistician, Mr. Giffen, after abstaining for a long time from taking any part in the discussion on bimetallism, has suddenly thrown himself into the fray, attacking with extraordinary fury both the system and its supporters.

"We hold," said M. de Puynode, "that the money metals are ordinary commodities subject to the fluctuations of supply and demand, and that it is therefore impossible to establish between them a fixed ratio, which shall be constant or nearly so." And while saying that this was the basis of the doctrine held by

[1] Gold and Silver Commission. Final Report.

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himself and his friends he added: "In like manner the basis of the contrary doctrine, whether stated or passed over in silence, is that the law creates the value of the money metals, and can consequently establish between them a ratio which shall be permanent or nearly permanent."[1]

M. Frédéric Passy, taking the same text but going more into detail on it, expresses himself to this effect: "We deny that any Government has the right, nay further the power, to maintain a fixed and invariable ratio between two values, between two commodities, both fluctuating, and fluctuating sometimes in one direction, sometimes in another, in proportions impossible to determine.[2]

"To desire, in spite of these fluctuations (the fluctuations in the ratio of the value between gold and silver), to maintain the old ratio is—I repeat it *ad nauseam*—to desire to do violence to nature, it is to say that two and two make at will four or five, and that a twentieth is the same thing as a fifteenth.[3]

"It is exactly these inevitable fluctuations in the commodity gold and the commodity silver which make it impossible to fix once for all their respective prices.[4]

"Whatever you may say, it is not mintage which gives gold and silver their value. It is the intrinsic value (*valeur propre*) of gold and silver which gives these metals the power of discharging the functions of money."[5]

And at the end, in his eloquent peroration, M. Passy, undertaking the defence of natural laws, affirmed that the theory of bimetallism rests on the denial of these

[1] *Congrès Monétaire International*: *Compte rendu in extenso*, p. 154.
[2] *Ibid.*, p. 183.
[3] *Ibid.*, p. 184.
[4] *Ibid.*, p. 191.
[5] *Ibid.*, p. 194.

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laws and the substitution for them of the doctrine of the omnipotence of the State.

To the quotations I have just made, I need add none from the other two French speakers to whom I alluded above. M. Émile Levasseur and M. Clément Juglar, the gentlemen in question, declared frankly that they were opposed to bimetallism. As to the first, however, there is a wide difference between the basis of his argument and that of the positions of M. de Puynode and M. Passy; while, as for M. Juglar, it is not in the field of theory that he has joined issue, but over historical facts, which he has declared are in support of his argument.

But in Mr. Giffen's writings we again find assertions which bear an obvious resemblance to those of M. de Puynode and M. Passy, although his method of reasoning is, in some places, of an entirely different order. Thus, in an article published by him in the *Nineteenth Century* of November 1889, he lays down that there is no special relation between the precious metals on the one hand and other commodities on the other. He says that it is wrong to regard the price of commodities as depending on the quantity of precious metals minted, but on the contrary, it is the price which determines the quantity of these metals employed as money. He adds that in his view the ratio of value of the precious metals to other commodities is simply settled, like every other ratio of value, by supply and demand and by the cost of production of the last amount required to satisfy the marginal demand. Several times he returns to this conclusion, saying expressly that in his view the demand for the precious metals for use as money in no way determines their rate of exchange with other commodities. And going

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on from this assertion he refuses to admit that gold and silver can act as money interchangeably and indifferently, the one, if necessary, supplying the place of the other, even when a fixed ratio for their use in this manner has been settled by law. To conclude from this that the bimetallic system cannot be put in practice is naturally not a long step, since beyond doubt the theory then crumbles from its very base.

Mr. Giffen continued his attacks on bimetallism in the *Times* (26th Dec. 1889, and 4th Jan. 1890). We have here nothing to do with what is at the bottom of these two articles. But it must be noticed that in the first we again find the doctrine which Mr. Giffen developed in the *Nineteenth Century*. He says that there prevails in the minds of bimetallists a certain confusion of ideas on the subject of the influence of legal tender law, a confusion which he ascribes to a want of definiteness in the terms used in speaking of mintage and the legal tender in a fixed ratio. To mint the two metals in a fixed ratio is nothing, according to Mr. Giffen, but a question of words, of terms. For after the operation, just as before it, the two metals are nothing but commodities, and can be nothing else, and so after mintage they will be governed by precisely the same laws of exchange as before.

Now, as a matter of fact, the answer which must be given to these various assertions, and the arguments which hang on them, is that the opponents of bimetallism are making a twofold mistake. They are mistaken in what they believe the statements of bimetallists to be, and they are mistaken again as to the objects of the system. Bimetallists in no way claim that law creates the value of the money metals, and can in consequence establish a fixed ratio between them. They recognise

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quite clearly, and state most emphatically, that whatever may be the monetary system of a country, from the moment that the minting of money is free and unrestricted, the value of it conforms to that of the unminted metal, and that the ratio of value between this metal, and consequently also minted metal, and all other commodities (that is to say, the price of commodities), is simply the result of the forces of supply and demand which exercise their influence on either side.

Still, at the same time, the bimetallists claim—and this, I think, is a truth which cannot be disputed—that the choice which the Governments of different countries make between the two precious metals, for use as money, is of the greatest importance in determining the value of these metals. And for this very reason, because it is this choice which determines whether these metals be more or less in demand. And they further add, that from time immemorial to the present day, the use of the precious metals for money has so preponderating an influence on the demand for them in general, that practically it is this demand which settles their ratio of value to other commodities.

Thus they take their stand on the economic law which has been mainly formulated by one of the greatest of the English economists, Mr. Stanley Jevons—namely, that when different commodities are used for the same purpose, the conditions of demand and exchange in their cases are not independent; and they assert that if the Governments of the chief commercial countries were to unite to grant the two precious metals legal currency and legal tender power in a fixed ratio, with unrestricted freedom of mintage, the ratio of the market value of these metals would conform automatically to the monetary ratio.

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Whatever M. Passy may say, it is perfectly clear that this is a question of applied political economy, and bimetallists in defending their theory are upon the ground of pure science. "Laws," says M. Passy, recalling Montesquieu's words, "are the necessary relations of things. Science is the ascertainment of these relations. It consists in observation of facts, in recognition of the relations between them, and the connection of one with another by the chain of cause and effect."

Indeed, without offence to this speaker, it would be impossible better to describe the method by which bimetallists have reached their conclusions.

To justify this, I cannot do better than reproduce the chain of reasoning by which M. Mees, one of the first economists of Holland, lately explained the theory of bimetallism.[1]

M. Mees writes: "It is obvious that if everywhere, under any circumstances, three hectolitres of rye and two hectolitres of wheat have the same utility, and give the same satisfaction to every one, the value of these amounts of these two kinds of corn will always be the same whatever the general conditions of their production and the results of harvests. The quantity of the two kinds of grain will vary, but their ratio of value will be perfectly stable.

"And similarly, supposing one kind of grain could alone satisfy some particular need and the other in the same way some other need, the ratio of value of which I have spoken would be unaltered so long as the satisfaction of these particular needs only required, in all cases, and

[1] I have already repeated this chain of reasoning in my pamphlet entitled, *Quelques observations au sujet des discussions du Congrès Monétaire International.* But as this pamphlet was not generally circulated, I have thought that it would be well worth while to quote the passage here in its entirety.

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under all circumstances, amounts sufficiently limited as not in any case to absorb the whole that is produced, so that still a part of what is produced should serve to satisfy the principal need in regard to which three hectolitres of rye and two hectolitres of wheat were absolutely equal. There might be a rise or fall in the value of both kinds of corn, but never in such a way that the value of three hectolitres of the one and two hectolitres of the other was no longer the same.

"It would be exactly the same with gold and silver if the system of a double standard at one and the same legal ratio of value was in force everywhere, since the proportion of these metals which is used for money is far greater than that which is used for all other purposes whatsoever.

"Suppose these metals were used exclusively as money, and that everywhere a kilogramme of minted gold was equal to $15\frac{1}{2}$ kilogrammes of silver; plainly the ratio of the market value of the two metals would be the same as the ratio of their monetary value. For why should any one place a higher or lower value on a kilogramme of gold than on $15\frac{1}{2}$ kilogrammes of silver if neither could be employed for any other purpose, and if in consequence there was no difference of utility between the two?

"Now it is perfectly true that these metals are not used only as money, but on the contrary considerable amounts of gold and silver are employed as primary or secondary factors of production in different industries.

"Still, however important the use so made of these metals, it is perfectly inconceivable that at any time the whole available quantity of either of them could find employment in industry at a level of value higher than that which it could command as money; supposing

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always that no absolutely unreasonable ratio of value was adopted.

"The two metals, then, must always in the great majority of cases be used as money; and as in this capacity they can only be used in their legal ratio of value, this ratio will determine their ratio of exchange as commodities."

To wish that Governments should arrange to establish, in the manner I have mentioned, a single monetary *régime*—the *régime* of international monetary unity based on the double standard—is surely in no way akin to the heresy of having recourse to a presumed supremacy of the State to modify in arbitrary fashion the very face of things. It is universally recognised to be the duty of the State to prescribe rules by which the monetary system of a country shall be shaped. To take care that this system supplies in the best manner possible the needs which must be satisfied is not only the right but the duty of every Government. This is true, whether it is expressly stated, as is done in the constitution of the German Empire, or whether it is left unsaid. Why, then, is Government acting within its province when it makes choice of one or other of the precious metals as money, giving it legal currency and legal tender power, and not when it decrees that the two metals shall be used together, and shall both possess the characteristics of money in a fixed ratio of value? There is certainly one objection which can be made, viz. that any isolated Government can establish in its country a monetary system based on a single standard, and may in this way establish an organisation which will more or less satisfactorily meet the monetary requirements of that country. While for a monetary system based on a double standard to succeed in practice

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there must be an agreement among nations to act in concert, particularly in regard to the ratio to be fixed between the two metals. But this is no argument against the theory of the system. It merely comes to this, that the system of bimetallism can only be put in practice safely when those countries whose agreement is indispensable come to an understanding on the matter. And this is the one thing which the advocates of bimetallism desire.

There yet remains the fundamental objection to bimetallism raised by Mr. Giffen, the importance of which, if it were well founded, cannot be denied.

Still, without wishing to be discourteous to him, however careless he has shown himself of the feelings of his opponents, no long explanations will be required to refute him. No doubt they would have to be made if we were minded to follow Mr. Giffen's arguments step by step. But his random assertions are so far contradictory of everything which is held by all financiers and economists, that such a proceeding would be superfluous. Not only so, but he also contradicts all he has himself previously written on the matter. And it is not too much to await his reply to the criticism of Professor Nicholson,[1] who at the time demonstrated the falsity of his new views, before entering into a serious discussion over what he has recently advanced. A single remark will suffice for the present.

Mr. Giffen declares that the price of commodities, that is to say, their ratio of exchange with the precious metals, is not influenced by the quantity of metal minted, but that the reverse is the case. Prices, he says, determine the amount of precious metals used as

[1] J. Shield Nicholson: "Mr. Giffen's Attack on Bimetallism," *Nineteenth Century*, Dec. 1889.

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money. Now if this were really the case, there would always have to be a stock of unminted metal, capable of being diminished or increased at will, or at any rate according to the requirements of the hour. For, failing this stock, the rise or fall of prices, which could only manifest itself by an extension or contraction of the monetary circulation, would have no means of obtaining this addition or of disposing of a superfluity. The result would be that a rise or fall in prices would be counteracted by the monetary situation, and that is exactly what Mr. Giffen says cannot possibly take place. But Mr. Giffen admits, it is true, the existence of a stock of non-money metal. He seems indeed to find some everywhere—in bank reserves, in gold and silver hoarded in the Indies and elsewhere, in trinkets and ornaments, and generally in everything made from precious metal. Now, to affirm that the reserve of precious metals held by the banks, that is to say, the metallic cover of their liabilities, has nothing to do with the monetary circulation is certainly extraordinary. But it is much more extraordinary to regard the other forms of precious metals enumerated above as a stock which will increase or diminish just as monetary needs demand.

Mr. Giffen's entire argument produces the impression that the author was extremely annoyed by the Report of the anti-bimetallist members of the Gold and Silver Commission, which I have already mentioned; indeed, in his first article in the *Times*, he took no pains to conceal his annoyance. Since then he seems to have gone in search of new arguments to destroy the impression caused by the Report. But we may say in all confidence that he does not appear to have been very fortunate in his search, and that he has not much to show for it.

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I have not yet done with Mr. Giffen, but I must at the same time allude again to the speech of M. de Puynode, which I have quoted above. Both of them, not content with arguments, have invoked the weighty authority of Lord Liverpool and even of Locke to confound the bimetallists.

Round these two names, particularly in England, there has gathered a belief that monometallism is the only really scientific monetary system. Some words of theirs which every one quotes have hardened into a dogma, and to protest against it is considered by everybody as a heresy in political economy. But, like many other dogmas, this one too has no true historical foundation, and there is good reason to believe that the alleged founders of the dogma would be the first to stand aghast if they were to learn the construction which has been put on their words.

I am not indeed the first to make this criticism. At the Paris Monetary Congress Mr. H. S. Foxwell did full justice to the celebrated essay of Lord Liverpool, demonstrating convincingly that his policy was purely insular. In a most interesting article published in the *Times* (7th Jan. 1890), in the course of a masterly refutation of Mr. Giffen, he returned to Locke's connection with the subject. He showed that Locke's statements in no way bear the meaning which has actually been placed on them. We have also the most interesting historical papers of Mr. Dana Horton on the same subject, in which this devoted and indefatigable supporter of the rehabilitation of silver has reached perfectly identical conclusions.[1]

The best means, however, of grasping the real

[1] *The Silver Pound and England's Monetary Policy since the Restoration*, by S. Dana Horton. London, 1887.

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bearing of the various English writings of preceding centuries on the money policy of England, is to read for oneself the best of the essays and pamphlets in which the question is treated. The study has been rendered easy by the labours of the Political Economy Club, which published in 1856 a selection of these tracts, at the desire, if I am not mistaken, of Lord Overstone, with the assistance of Mr. J. R. M'Culloch, who added a preface and notes.[1]

Reading these tracts one after the other we get a complete account of the difficulties which the Governments of the seventeenth and eighteenth centuries had to encounter to protect the monetary circulation of the country from an export which was indeed ruinous, because it was due to the differences which existed in various countries as to the ratio in value adopted between the two metals. We understand why in the end England decided to adhere to a single standard, and we rightly appreciate the worth of her enlightened advisers, who for a long time past had pointed to this measure as the sole remedy to solve the difficulties of the time.

But at the same time we must see that in all this controversy there was never any question of the monetary problem as it has appeared in our day. Excepting one author, Mr. Joseph Harris, *Assay Master of the Mint*, who wrote in 1757-58, we do not find any plea for the system of a single standard in which the theoretical defence of the system forms the basis of the argument; and even Harris's contentions have no bearing upon the present situation. Take Locke himself. It is true that

[1] *A Select Collection of scarce and valuable Tracts on Money.* London. Printed for the Political Economy Club, 1856. It should be added that the book is scarce and difficult to get; which is not surprising, as only 125 copies were printed.

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in his first Essay[1] he says: "Only this I will confidently affirm, that it is the interest of every country that all the current money of it should be of one and the same metal; that the several species should be all of the same alloy, and none of a baser mixture; and that the standard once thus settled should be inviolably and immutably kept to perpetuity."[2] And in his second Essay[3] he returns to the same subject, and says: "Two metals, as gold and silver, cannot be the measure of commerce both together in any country, because the measure of commerce must be perpetually the same, invariable, and keeping the same proportion of value in all its parts. But so only one metal does or can do to itself: so silver is to silver, and gold to gold. An ounce of silver is always of equal value to an ounce of silver, and an ounce of gold to an ounce of gold, and two ounces of the one or the other of double the value to an ounce of the same. But gold and silver change their value one to another; for, supposing them to be in value as 16 to 1 now, perhaps the next month they may be as $15\frac{3}{4}$ or $15\frac{7}{8}$ to 1. And one may as well make a measure, *e.g.* a yard, whose parts lengthen and shrink, as a measure of trade of materials that have not always a settled invariable value to one another.[4]

But it must not be forgotten that these arguments are only the conclusion of a long chain of reasoning, in which it is clear enough that Locke did not claim to give to his assertions the stamp of absolute truth, but that they

[1] *Some Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money.* I use the first London edition, 1692. Locke's writings have not been reprinted in the collection of the Political Economy Club.

[2] *Ibid.*, pp. 169, 170.

[3] *Further Considerations Concerning Raising the Value of Money*, London, 1695.

[4] *Ibid.*, pp. 20, 21.

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are simply the deductions which he draws from the facts of the time. Thus, just before the first declaration which I have quoted, we read :—

"Money is the measure of commerce and of the rate of everything, and therefore ought to be kept (as all other measures) as steady and invariable as may be. But this cannot be if your money be made of two metals whose proportion, and consequently whose price, constantly varies in respect to one another. . . . And can any law you shall make alter this proportion here when it is so everywhere else round about you? If your law set it at 15 when it is at the free market rate in the neighbouring countries as 16 to 1, will they not send hither their silver to fetch away your gold at $\frac{1}{16}$ loss to you? Or if you will keep its rate to silver as 15 to 1, when in Holland, France, and Spain its market value is but 14, will they not send hither their gold and fetch away your silver at $\frac{1}{15}$ loss to you? This is unavoidable if you will make money of both gold and silver at the same time and set rates upon them by law in respect of one another."[1]

Such arguments as these show us clearly that Locke did not look at the question from the point of view of a scientific problem, but that he treated it only as he found it practically operating under the circumstances of his time. How, indeed, could a fixed ratio be declared by law if in neighbouring countries the ratio was different and changing from day to day? This is the question which presented itself to him. It is true that he did not discover the solution which Wolowski, Cernuschi, and others have discovered, although it had already been found during the sixteenth century in Italy by Gaspard Scarruffi. But if Locke did not recom-

[1] *Some Considerations*, etc., pp. 166, 167.

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mend this solution, it was not because he was opposed to it, but simply because he had never even thought of it.

I wish to add one more quotation to those I have already made. Among the authorities whom Mr. Giffen cites we find Sir Robert Peel, and I think it of importance in this one case to compare the exact words of this statesman with the ideas which are attributed to him at present.

For this purpose I will take a speech delivered by him in Parliament on 1st June 1835, in answer to a motion of Mr. Cayley desiring the institution of an inquiry to examine whether anything could be done to remedy the distress under which agriculture suffered by a return to the old monetary standard of silver, or rather of silver jointly with gold.

Sir Robert Peel declared himself most strongly opposed to all intentional depreciation of money, from which it would appear that certain persons anticipated benefits to the agricultural class, and he showed that in the then existing circumstances no possible end would be gained by altering the money standard, unless such a depreciation of money were really the end that was hoped to be attained by these means.

In his speech he treated explicitly the question of a single or a double standard. He said: "Now if we proceed to alter the currency the first question would be, Shall we have a double standard of gold and silver conjointly, or shall we simply alter our standard from gold to silver. I cannot see any advantage derivable from the institution of a double standard; you cannot make a double standard without defining the ratio that is to exist between the nominal values of the two metals. To say that every man shall pay his debt in

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silver or gold, whichever he might please, without defining their relative value, would be absurd and impracticable. We might certainly have a double standard, defining the relative values of gold and silver, and leaving it to the option of a party who had money to pay to make his payment either in gold or silver. But this very option seems defeating the object of a standard and introducing unnecessarily uncertainty into contracts. It appears to me a much less simple course than that of adhering to a single standard, and a course unaccompanied by any advantage countervailing the loss of simplicity. Gold and silver seem to have some necessary connection, from being so frequently united in common parlance; but there is no more reason that they should be united in a standard than that gold and lead, or gold and copper, should be so united. To unite two metals, the value of which is not in a fixed ratio, and cannot be, in a double standard is to diminish the value and advantage of a standard. The more simple the standard the better—the very name implies unity and simplicity. It is the measure of value, and why not have one measure of value as well as one measure of length and capacity?"[1]

At first sight these words of Sir Robert Peel seem to lend weight to the side of those who claim to shelter under the greatness of his name their opposition to bimetallism. But if one looks closely at it, it will be seen that this is not the case. In the first place part of the very paragraph quoted proves the contrary; for instance, the beginning, in which the question is treated in a fashion completely different to that of the opponents of bimetallism. But to proceed thus is to

[1] *The Speeches of the Late Rt. Hon. Sir Robert Peel, Bart.* London, 1853, vol. iii. pp. 131, 132.

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do injustice to the meaning of the speaker. The passage quoted must be taken in its entirety. And then it appears that Peel made no fundamental objection of principle to the double standard; but he found the single standard more simple, and perceived no advantage to be gained by returning to the double standard. But writers like Wolowski, Cernuschi, Gibbs, Nicholson, and Foxwell would have shown Peel that far from his view being true, the double standard afforded a much better guarantee of the stability of the value of money than the single standard; that the advantages of bimetallism are much superior to the advantage of simplicity belonging to the single standard; that between gold and silver there is a bond which does not exist between either of these metals and any other, because these metals alone are employed by civilised nations as monetary standards. Indeed Wolowski would only have had to place before Sir Robert Peel his *Notes préliminaires sur la question monétaire*, and his *Mémoire sur l'or et l'argent*,[1] to convince him that all comparison between money as a measure of value and measures of length, and the like, is completely false and void of signification, because it rests on a similarity of words and not of conceptions; and then most certainly Peel would have taken the side of the bimetallists.

Enough, however, of preliminary matters.

The theory of bimetallism briefly reduces itself to this. The two precious metals, which are used exclusively as money, strictly so called, in the commercial world as a whole, owe their value, that is to say, their

[1] See *La Question Monétaire*, by M. Wolowski.

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rate of exchange in relation to other commodities, to this monetary use which is made of them.

In consequence it is just as practicable to use both these metals simultaneously as money, as to use one or the other. Provided that the State, with whom it lies to regulate the monetary system of each country, grants legal currency and full legal tender power on a footing of perfect equality to the two metals in a fixed ratio; and provided further that this monetary system — the system of bimetallic money—be adopted by international agreement over an area sufficiently wide, that for the future it will be the use made of the two metals in this monetary region which will decide their rate of exchange in relation to other commodities throughout the whole commercial world.

In the objections of M. Passy, De Puynode, or Mr. Giffen, of which I have spoken, as in all the writings of all the financiers and economists with whom they are in agreement, there is nothing to show that this theory is not reasonable, or that it comes in collision with the doctrines of political economy.

Let us then pass on to explain the reasons for which a state of international bimetallism would be preferable, and far preferable, to the existing monetary situation.

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CHAPTER II

THE ADVANTAGES OF BIMETALLISM

THE first advantage that I claimed for bimetallism was that it is the only system by which it is possible to attain monetary unity in the commercial world. This monetary unity existed, in fact, to a certain extent—I use this phrase for I admit that the state of affairs was not perfect—from the commencement of the century to about 1873. During the whole of this period the system of the double standard with a fixed ratio in France, and later in the countries of the Latin Union, was sufficient, owing to the manner in which at the time other countries were divided, some with a gold standard and others with a silver standard, and the condition of the two metals which was thus established in the various countries, to maintain everywhere a ratio of value between gold and silver which did not differ widely from the ratio established by law in France.

Now, however, we know only too well this practical unity is no longer in existence. Let us review as briefly as possible the causes of the rupture.

Between 1860 and 1870 there was a movement tending to the extension of the monetary union inaugurated by the Latin Union, and there was a general inclination to agree that the new bond of union should

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be and could be a gold standard as the only standard. Then came the war of 1870, which put an end to all the negotiations which had been opened on the matter. But after the war Germany, having to organise a monetary system for the new empire, adopted for the purpose —whether still under the influence of all that had been said and written on the subject of the monetary question in preceding years, or whether for other reasons— the gold standard, replacing with it the silver standard, which had hitherto been the monetary standard in all the German countries.

It is indubitable that this monetary reform brought about a widespread revolution in the state of affairs. The monetary equilibrium which had till then existed was menaced and soon completely destroyed. Could it possibly have been maintained by any action on the part of France or other members of the Latin Union? That is hardly probable; we might go further and say that it was quite impossible. It was rendered still more impossible as Germany, Norway and Sweden, and the Netherlands followed more or less the example set by the German Empire. Above all, at the same time there began an alteration in the annual production of gold and silver which affected the relative importance of the two metals. On the one side the supply of silver increased, first because more was produced, and secondly because States who had formerly used it now had it to sell; so the demand for the metal diminished. On the other side there was a smaller supply of new gold, while at the same time the metal found new purchasers. We may then approve the resolve of the French Government and the other members of the Latin Union to suspend the minting of silver. But it is none the less true that at a stroke all bond between the two metals was broken.

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Since that time there has been no direct connection between the value of gold and silver. Their rate of exchange for other commodities is now perfectly independent, and is determined for each of them by the action of supply and demand acting on each separately.

To go back upon what has happened in the last fifteen or twenty years is impossible. The practical monetary unity which then existed cannot be re-established as the result of a similar arrangement.

There is only one means of regaining this monetary unity: it lies in the organisation of a general agreement, and in all the contracting parties taking part in this organisation on a perfectly equal footing.

In other words, to re-establish the link which existed formerly between gold and silver in the commercial world as a whole, it is necessary now to restore it in each several part of the whole. This will at the same time be the means of establishing it more solidly.

Bimetallism is the one monetary system which in practice lends itself to this organisation.

In theory certainly it is easy to admit monetary unity based on a single standard, but only up to a certain point. For rich countries would never be willing to give up the use of gold altogether; while it must be remembered that in many countries the adoption of a gold standard would be an absurdity, because it could not be a reality. All the East, and many other countries besides, even at present, use for the greater part of their payments nothing but silver money.

But in any case there would be a most serious difficulty of a totally different kind. Once let the commercial world as a whole adopt one and the same single standard, and there would be a disturbance of all present prices, in comparison with which the disturb-

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ance felt in the last fifteen years would be mere child's play. It is hardly too much to say that by such a course of action a social and economical revolution would be let loose.

But it is scarcely necessary to turn aside to look into the consequences of such a contingency, for no one desires or recommends any such extreme course of procedure.

It may, notwithstanding, be questioned whether it follows that we are bound to adopt bimetallism. For, after all, is monetary unity in reality so eminently desirable, so absolutely necessary? To this question I have no hesitation in making an affirmative answer.

There are two things to be taken into account. Monetary unity is desirable in itself, as it is a condition of economic progress and development; and it is still more desirable as the only means of delivering us from a conflict of standards, which, as long as it lasts, will be a cause of uncertainty most injurious to numerous interests.

I repeat, monetary unity is a condition of economic progress and development. Money is everywhere the measure of value. Not, indeed, a measure of the same kind as the measures of length and capacity, but in this sense that it serves as a means of comparison for all values. From this point of view alone it is obvious that international commerce must suffer if there are in common use two measures of value instead of one. In fact, money proper disappears out of international trading, and commerce is reduced again to a state of barter. But, as Jevons has said in the words which I have placed at the beginning of my essay: "Modern society could not exist in its present complex form without the means which money constitutes of valuing, dis-

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tributing, and contracting for commodities of various kinds."

But, it is often urged, even between two countries with different standards there is always a rate of exchange in existence, exactly as there is between a country with a monetary standard, and one which has a system of inconvertible paper money. This is no doubt true. But what is wanting here is stability of exchange, the certainty that the rate of exchange can only vary within known limits. Can any one believe that a country with a system of inconvertible paper money is not injured by such a state of things? I am speaking, be it understood, of the trade of the country taken as a whole, not of particular transactions which persons undertake at such times, transactions which bring in exceptional profits gained only at the expense of other persons. I am certain that science has always shown, and history has always taught, that a country with inconvertible paper money as legal tender must feel the effects of it in its trade, and that everything connected with trade suffers in the same way; and I am further certain, that a country whose trade is injured is in no case the only one to feel the injury, but that the loss must in the end fall, though in a different degree, on all parts of the commercial world. Well, then, I accept the comparison between the cases of two countries with different monetary standards, and of two countries, one with a monetary standard, and the other with a system of inconvertible paper money. No one surely could desire to put the commercial world in such a position. And further, as far as foreign trade is concerned, it is clear that this would reduce every country without exception to identically the same position as that of a country with a system of inconvertible paper money.

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But it might be said these evils are imaginary: all is pure theory. As an example of the real state of affairs, take the commerce between England and India. The inquiry of the Gold and Silver Commission has demonstrated that all the harm done is reduced to the payment of a trivial bankers' commission.

Now, first of all, I may observe that much of the evidence on this point is conflicting; further, it is true that in two countries in such close relations as England and India, the harm done is reduced to a minimum; but this is not so in every case. Besides, in such matters there are effects which are seen, and others which are unseen. Granted for the minute that a Manchester merchant sending a consignment of manufactured goods to India is able to cover himself from loss by exchange. But when he wishes to make an estimate of the probable increase in a given time of the amount of his exports to India, in order to be able to regulate by it his purchases of raw material and various other things, he cannot then insure himself against the effects which the disturbances of price caused by the fluctuations of the course of exchange may have on his trade. Here, without doubt, there is a cause of uncertainty in trade and industry which it is impossible to eliminate.

We are not yet at the end of the disastrous effects of such a state of things on international trade. Money is not only a measure: it is also an equivalent. As such it occupies, and always will occupy, a most important position in all commercial operations, and especially in international trade. It is only owing to the export and import of the metal which is used as money that the natural relation of prices between two countries is maintained. If the similarity of money

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standard between them is destroyed, the bond which unites them in this way is broken.

There is still a third consideration. Money is a standard of value for deferred payments. All loans, all bills, whether of long or short date, are money contracts. Consequently, it is of the greatest importance in all these operations, when they are between different countries, to have an identity of monetary standard between the two.

The capitalist who makes an investment abroad is not willing to expose himself to losses through depreciation of the money which measures its amount. The depreciation of which he feels the effect is not only apparent, but also real in relation to the money of his own country in terms of which he keeps his accounts. All the more does a banker, who does business in capital, often borrowing in one country to lend in another, hesitate before running such risks. There must be large compensating advantages on the other side before he will expose himself to possible loss.

It is evident that the breaking of the monetary connection between two countries is a most serious hindrance to all such business, while at the same time easy migration of capital is a vital matter for economic development. If the capital of rich nations can be placed at the disposal of nations which are still in need of it, there will be direct gain to both parties, and general prosperity will be the result.

It is not too much to say that the dualism in money which has existed during the last fifteen or sixteen years has done an enormous amount of harm in this respect. From the point of view of the economic progress of the world such a state of things should be terminated.

Take the case of British India. It is beyond ques-

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tion that the economic condition of the country has greatly improved during late years. But this improvement, in the opinion of persons most competent to judge, is only in the very slightest degree, if at all, due to the pretended advantages of the alteration of exchange; in almost every instance the development of railway systems and other works of public utility is the principal reason of the prosperity. How much greater would the prosperity have been if the monetary dualism of England and her Indian Empire had not clogged progress. We have often seen at the very same time the rate of discount at Bombay and Calcutta rise to 10 or 12 per cent, while in London it was no more than 2 or 3 per cent. No one would allow that so high a rate could possibly be advantageous to Indian trade. Still it was only the natural result of the monetary situation which prevented banks from sending their capital abroad.

Many countries are in a similar position to British India, except that they have still greater need of European capital to enable them to utilise their natural resources. China, for example, has begun to open itself to modern civilisation. For it also the condition of money matters is a most serious difficulty which almost every project finds in its way. Some private letters written quite recently, which I have had the opportunity of seeing, state most emphatically that this is the great obstacle to the construction of railways in the country. The Chinese Government will not contract loans except in the money of the country—silver money—and bankers will not take up its loans unless they are made in gold.

I have said that monetary unity is further to be desired as the only means of freeing us from the conflict

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of standards. The state of affairs which is brought about in the commercial world by this conflict of standards is in itself a serious evil. It is impossible to say what will happen in a great number of cases where the difficulty is particularly urgent, or, indeed, may become so at any moment.

Thus in the countries of the Latin Union it seems that it will be impossible to keep indefinitely the enormous quantity of silver money with which the circulation is overloaded, unless the value of silver rises relatively to gold. Yet one cannot say whether it may not actually be decided some day or other to demonetise silver, and if so, under what conditions. Again, if Europe does not make up its mind to adopt bimetallism, the United States will some day have to choose between stopping the mintage of silver and the adoption of the metal as the real standard money of the country. It is impossible to say which of these alternatives will be chosen.

Then look at the situation as it presents itself, for instance, in Russia. Thanks to the revival in its credit, Russia will soon be able to think of resuming payments in specie. If she does so, will she adopt a gold standard or a silver standard?

In conclusion, the desire has been expressed more than once that the Government of British India should suspend the coinage of silver, and at the same time adopt a gold standard under certain conditions. Is this really to be expected some time or other? Everywhere there is uncertainty what the future, immediate or remote, will bring us; and this uncertainty, which is the characteristic mark of the situation, is the direct result of the conflict of standards.

Let, however, the monetary dualism come to an end,

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and all causes of uncertainty will vanish with it; and further, the greater number of these problems will be solved at the same time. And even where this will not be the case the event will not be doubtful; thus Russia when the time comes would surely rally to the standard of bimetallism.

Secondly, I have given as a reason for the adoption of bimetallism the probability that by it will be given the best possible guarantee of the stability of the value of money. Every one is agreed that there is no possible way to attain absolute stability. It is inherent in the nature of things that the rate of exchange between the precious metals and other commodities will always be liable to modification; and money, that is to say, real standard money, of which the mintage is unrestricted, will always be worth just what the metal itself is worth.

First of all, there will always be fluctuations in prices—for price, as I have already said, is nothing but the expression of the rate of exchange between money and a particular commodity. There are then, in the first place, fluctuations in prices which indicate that the commodity is more or less in demand, that the cost of production is increasing or diminishing. We need not concern ourselves with these, for they are as a rule merely isolated variations, or at most affecting some particular class of commodities, although their influence often makes itself felt on other commodities also. But in any case it is obvious that in such cases the beginning of the movement does not come from the side of money. And this is still true when there follows a movement

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more or less indeed general, which is the consequence of some political or financial occurrence, such as a war or a crisis in credit. It is not of these variations in prices either that we have to speak.

But there are other fluctuations in prices which are not of this kind. The beginning of the movement can most certainly come just as well from the side of money. Wherever money is used there is a certain ratio between it and all other kinds of material wealth taken in their entirety,—a ratio indeed which is extremely complicated, since it depends on the system of credit in a country, on the movement of business, and many other causes; but all the same assuredly the ratio does exist, and this ratio is of such a kind that if all the money circulating through the world could at a certain moment be doubled, immediately prices of all commodities, although perhaps they would not actually be doubled, yet would experience a sharp rise. Naturally then, as money can be increased or diminished in amount, it follows that there can be variations in prices of which such increase or diminution is the sole and only cause.

So it is likely that there must be, so to speak, a continuous series of variations either in one direction or the other. For, to prevent this, there would have to be a constant equilibrium between the causes which affect the supply of money and those which affect the demand for it.

Still if nothing abnormal happens these variations can be only of minor importance, and can only make themselves felt very slowly, since every cause of a rise or fall in the value of money has to act upon the enormous amount of the precious metals already existing in the shape of money.

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Now let us consider a little more in detail what are the causes of variations in the value of money.

First, there may be a disproportion between the annual production of the precious metals from the mines, a deduction being made for the quantity employed in the arts, and the amount required to maintain the value of the money in circulation.

Secondly, there may be new needs for money; such as a country under a system of paper money changing to a system of metallic money, or new countries being developed and opened to international commerce. The reverse also may occur; either, though this is hardly probable, by a country in a state of civilisation being abandoned, or, what is more likely, by a country with a system of metallic money being reduced to resort to a system of paper money.

Now there is one thing that can be stated *à priori*, namely, that the greater the amount of money on which these various causes of rise and fall have to work, the narrower will be the limits of the variation.

But divide the world in two,—into a world of silver money and a world of gold money,—and you expose each part to a double chance of undergoing these effects, and that too in a measure twice as great. First, because in case of a difference between the demand and supply of the product of the mines it may easily happen that this difference applies only to the production of one of the two metals. And secondly, because if the demand for the precious metals undergoes a change from any of the causes I have mentioned, the effect produced by it will be more or less appreciable, according as the area in which it can make itself felt is more or less limited.

We have here, in fact, exactly the state of things which Jevons so admirably explained, by his well-known

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illustration of the two vessels connected by a pipe, or disconnected.

But it is not enough to confine ourselves on this point to mere theory.

The opponents of bimetallism not only stand up for a single standard and against a double standard, but they particularly advocate the gold standard as against the bimetallic one. But it must further be added that while they take this position, it is extremely rarely that they are logical, and dare to follow their proposition to its logical consequences.

Thus, to begin with the case of England: while on one side there is no inclination to abandon the gold standard, on the other there is a desire to keep the silver standard for British India; it is obvious there is still some slight want of conviction in the matter. Unless indeed there were a wish to keep what is good for oneself, and to leave what is not good for others; but no one would admit that this is the sentiment of England towards its Indian Empire.

And in the same way at the Paris Monetary Congress we have heard M. Levasseur asserting that with the double standard not only are fluctuations more frequent, but that there is good reason for supposing that they will always tend towards a lowering of price.[1]

I need not traverse this first statement again. I have already proved that in this respect the double standard undoubtedly promises to give us much greater stability than the single standard. It cannot be questioned, in my opinion, that even should the fluctuations be more frequent, they will be less serious. This certainly will be an advantage.

But if one believes that there is reason to predict

[1] See the *Congrès Monétaire; Compte Rendu*, p. 101 *seq.*

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that with the double standard these fluctuations will always tend towards a fall, which is the same as saying that the value of money as a whole will feel the influence of the fall in the value of silver; then one must have a poor opinion of what is likely to be the stability in value of money in a country with a simple silver standard. And yet M. Levasseur does not seem to think that the East, with no other money than silver, would have any reason to complain.

I confess that in all this argument M. Levasseur has some appearance of being, just like monometallist England, astride on two opinions, which are contradictory.

Let us confine ourselves, however, to the assertion that the gold standard promises greater stability in value than the double standard, and see if that is in itself well founded.

M. Levasseur said that those who affirm that gold is scarce, that it is increasing and will increase in value, forget two things. First, that instruments of credit to a great extent take the place of money in exchanges, and that there is still in business ample room for the development of methods of clearing and fiduciary circulation. Secondly, that new discoveries may add to the stock of precious metals.

I think I may say most definitely on the contrary that those who base their belief in the stability of the value of money under a single gold standard upon such reasons as these are building their house upon sand.

It is true, however, that instruments of credit can to a great extent supplement money in exchanges, and in several countries great economies of cash might still be made in this way.

But the development of a system of credit here

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referred to does not usually arise except in connection with a general movement of commercial progress in a country. Perhaps it is even correct to say that it can only be the consequence of such a general movement. And if this is so it follows that although it is possible enough in this manner to do away with the necessity of an increase of cash, yet no real economy in comparison with the former state of things can ever be obtained thus. Take as an example of this what has been happening in Germany during the last few years. The use of methods of clearing at the State Bank of Germany has received a great extension, owing to the trouble taken by the directors of the bank to make the process easy. Still even so the development in this direction has hardly kept pace with the progress of business in general. A proof of this is that Germany has required to increase its stock of money rather than to decrease it by handing over even the smallest amount to others.

And it is a fact beyond question that in no case, at any time or in any country, has such a recourse to instruments of credit with the view of economising the use of metallic money ever been successful, if it has been attempted to introduce the system in a manner more or less artificial, or in the belief that the only thing necessary to make it succeed was to prepare the way for it by legislative measures.

Further, there is another thing to add on the subject of the applications which have hitherto been made of this system; namely, that the enormous development of it which has taken place in England, has only been possible because it is an isolated case. England, no doubt, transacts its business with a minimum of cash, both for active circulation and for

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the metallic reserve of her banks, and this serves her purpose, although the consequence is that from time to time it is necessary for her to make great sacrifices. But it would be out of her power to carry economies of cash to such a point if she could not count on the stock of money in other countries for the purpose of drawing from them a reinforcement of her own store when the necessity manifests itself.

And besides, even though there is room for an economy in cash,—and we may admit for the moment that, when everything is taken into account, this is the case,—there are also new demands for cash which come up from time to time. So that actually already there would be no difficulty in mentioning countries whose monetary affairs are in a very sorry state, mainly, if not entirely, because it has been impossible for them to procure good metallic money.

But, it is said, there are likely to be discoveries of new gold mines. M. Levasseur, while charging bimetallists with neglecting to take account of such a possibility, has, however, been honest enough to add in their favour that, if they were silent on the subject, it must be confessed that nothing definite was known about it. For the sake of argument, let us allow that it is probable, nay more, certain, that mines will be discovered. But even in this case is it quite certain that the gold will flow in bulk to our old countries with metallic money? M. Levasseur mentions the gold mines of South Africa as likely to become an abundant source of yellow metal. Still more recently M. Leroy-Beaulieu also called the attention of his readers to these mines, advising them, however, at the same time not to disturb themselves with fears of any danger of a marked depreciation in gold and a marked rise in the price of commodities.

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"For," said he, "I believe such apprehensions would be premature."[1] Well, the truth is that these auriferous strata of Africa have taken away from Europe more gold than they have returned to her.

In the year 1889 the yield of gold in South Africa rose to about £1,750,000, as against £900,000 in 1888; but at the same time the export of gold from England to these countries rose from £1,420,394 in 1888 to £2,390,680 in 1889.

And there is nothing astonishing in such a circumstance. Under the influence of the discovery of new gold-mines an enormous development of the fortunate country takes place, and especially when this country has been more or less outside the commercial world hitherto. Further, it is naturally in new countries that there is the most likelihood of such discoveries being made. Then all of a sudden there are railways to be made and towns built, and an enormous mass of new wants to be satisfied. The old European countries send thither their labour and capital; and as the new society thus improvised will require no small amount of cash, the capital will, to a large extent, be transmitted in the form of specie.

It requires a certain lapse of time and a really considerable output before new mines can really feed the stock of money in the commercial world.

In fact, it seems that from whatever point of view the question be regarded, there is no reason to find in a simple gold standard a guarantee of a stable value of money in any way superior to that held out by the double standard; and there are many reasons, on the contrary, which in this respect plead for a bimetallic standard.

[1] M. P. Leroy-Beaulieu, "Le Sud de l'Afrique" (2me partie), *Economiste Française*, 26th October 1889.

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Now, if a nation could pick out a nice little place for itself in the midst of other countries, and arrange everything so as best to suit its own interest—a gold standard for itself and some few friends; only acquiring new territory if new gold mines were discovered there; having besides a little silver cash as subsidiary coinage, while other nations continued to keep silver as their standard money, so that it should not fall too much in value—then indeed this would be in no way unpleasant, that is to say, for the country in this favoured position. Undoubtedly, but the rest? what would be their position? We are speaking here of the interests of all; it is that which is under consideration.

And, as a matter of fact—and this is far from being unfortunate for the rest—no single country has the power to acquire such an exceptional position. Far from it. As things now stand it is between bimetallism and conflicting standards that a choice must be made; and however opinions may differ as to what would be the best standard to secure the stability in value of money, if things could be arranged to suit a particular taste, I doubt if there will be found any one who does not shrink from conflicting standards with all their consequent uncertainties.

But this brings us to the third argument which I have advanced in favour of bimetallism.

I said that, in the third place, bimetallism was the best monetary system, because, so far as regards the individual interest of each nation, it affords a better basis than any other for a monetary organisation sound in itself and whose efficiency is likely to be permanent.

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I confess that this appears to me so obvious as scarcely to need explanation.

Allowing for the moment that it were possible to find good reasons for preferring, in a particular country, either a gold standard or a silver standard to a bimetallic one, even then the desired ideal could never be realised except on the condition that elsewhere the situation in regard to the precious metals should be such as not to disturb the anticipations on which the preference was based. Thus, for example, England for a long time was extremely well off with her gold standard monetary system. But this was entirely accidental. During the whole time she has been exposed to the risk of seeing the value of her money undergo a sharp fluctuation owing to some measure taken elsewhere, over which she had no control. This is exactly what took place after 1870.

And it will always be so everywhere as long as the choice of the monetary standard continues to depend on the legislative measures of different countries, each acting independently, instead of being the result of an international agreement.

Since the value of money, its ratio in exchange, depends on the use made of the precious metals in the commercial world as a whole, it follows that the choice of a monetary standard ought not to be a matter for the decision of different countries acting individually, but should on the contrary be the result of international arrangement. This is the form in which I am inclined to put the proposition; and so stated, it appears to me to be almost an axiom.

Now, the only monetary system that can be established by international agreement is the bimetallic system. I cannot imagine that any one would have

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the courage to propose a general demonetisation of one or other of the metals, or even merely its general relegation to the *rôle* of subsidiary coinage.

And apart from these two policies there is nothing left but monetary dualism—that is to say, the division of the commercial world into countries with a gold standard and countries with a silver standard—a truly deplorable condition of affairs, which is, no doubt, what we have at present, in the absence of an international agreement, but which never could be the result of any such agreement.

And would it really be so difficult to assemble a conference in which the Governments of the principal nations would act in concert in laying down the conditions of a bimetallic convention? Some weeks ago one might still have questioned the possibility of such a conference; but since, owing to the initiative of the Emperor William II., the Labour Conference at Berlin has been able to meet, it seems to me that no further doubt on the subject can be entertained.

We know by the papers that the note sent by Prince Bismarck to the Comte de Leyden, *chargé d'affaires* of Germany in London, and communicated by him to Lord Salisbury, to invite England to take part in this Conference, began with these words:—

"The competition of nations in the commerce of the world, and the community of interests resulting therefrom, make it impossible to establish successfully institutions having for their object the wellbeing of the labouring classes of a country, without prejudicing this country in its competition with others.

"Institutions of this nature can only be established on a basis adopted in common by all the countries interested."

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It would be in terms in the main identical that an invitation to share in a monetary conference should be couched; and there is indeed much greater necessity for issuing such invitations than there was for a labour conference. "The competition of nations in the commerce of the world, and the community of interests resulting therefrom," most certainly make a solution of the monetary question absolutely necessary. This solution can only be reached "on a basis adopted in common by all the countries interested."

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CHAPTER III

ANSWERS TO SOME PARTICULAR OBJECTIONS

We must now turn our attention to some objections recently raised against the system of bimetallism.

I have already refuted the attacks made on the theory of the system. But I shall have to deal with other statements which have been advanced claiming to show that the system can never succeed in practice.

In this connection we are especially asked to consider the monetary situation of France under the *régime* of the double standard.

At the Paris Congress M. Levasseur said: "The country whose monetary system is based on the double standard is liable to see its money perpetually in movement, through the influx of discredited metal and the outflow of the preferred metal, and the current will change its direction each time that the preference for the metals is displaced," and that "this is assuredly no guarantee of stability in value." He added that in France this point is made familiar by experience. At the same time he quoted some facts about the import and export of the precious metals to justify his assertion.[1]

In the same way M. de Puynode, denying that a permanent ratio could be established between gold and

[1] *Le Congrès Monétaire de Paris; Compte rendu in extenso*, pp. 99, 100.

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silver, said that the two metals "have never circulated upon the same terms, whatever were the laws," and that "never has the legal ratio established between them been maintained."[1]

M. Passy in his turn expressed himself in the same way, saying that in fact France has only known alternative standards, as must necessarily be the case by Gresham's law, according to which the depreciated metal always drives out the other.[2]

M. Juglar at the Congress went even further, and entered into great detail to prove that during the whole period of the *régime* of the double standard in France the actual ratio between the two metals continually differed from the legal ratio.[3]

Mr. Giffen, in a note appended to his article in the *Nineteenth Century*, also says that it is a mistake to refer to the example of what has happened in France to support the contention that the two precious metals can circulate together at the same time with full legal tender power.

On these assertions there are, in my opinion, two observations to be made. One relating to the facts of the case; the other to the conclusions drawn from them, and the arguments based on these same facts.

Now as to the facts, the price of silver metal in London or Hamburg is continually quoted as a proof that, in spite of the system of the double standard in France, the market ratio of the precious metals differed from the legal French ratio. Or perhaps, as is done by M. Juglar, it is the rate of exchange of Paris on London that is quoted. But, as a matter of fact, all this does not prove much.

[1] *Le Congrès Monétaire de Paris; Compte rendu in extenso*, p. 154.
[2] *Ibid.*, p. 192. [3] *Ibid.*, p. 226 *seq.*

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Even if gold and silver bullion could always have been bought and sold in Paris in an exact par with the legal monetary ratio, there might, nay, there must, have been a margin between the price of silver measured in gold in Paris and the price of it in London. And from the moment that this par no longer existed for bullion metal in Paris, the rate of exchange on London necessarily experienced fluctuations which reflected the variations of the relation between the two metals in bars and the minted metal, relations which depended on the amount of the London demand for silver metal from Paris, or the amount of it supplied. Because France was under the *régime* of the double standard at a fixed ratio, it did not follow that the ratio between the two metals elsewhere should always conform exactly to the legal ratio in France. On the contrary, it could only be so accidentally, and the natural situation would imply the existence of a margin on one side or the other between the legal ratio and the market ratio everywhere else except in France.

If then this divergence, and the fluctuations of the rate of exchange of which M. Juglar spoke, had never exceeded the marginal limit I have mentioned, the system of the double standard in France would have actually exercised over the whole world the maximum amount of influence which could have been expected.

For in fact—and this is a matter to be carefully borne in mind—the influence of the system of the double standard at a fixed ratio on the relative value of the two metals, is not a merely moral influence, but one which can only be brought about by commercial considerations. It makes itself felt, because when legal currency and full legal tender power are granted to the two metals, they mutually replace one another,

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in accordance with the fluctuations in supply and demand.

But, it will be said, the divergence in question has been in fact more considerable, and even if France has never at any time been entirely denuded of either of the two kinds of money, yet none the less there have been periods when in reality there has only been one in circulation,—sometimes silver and sometimes gold,—whilst at such times the other metal was really at a premium.

It is well known that all writers are not in agreement on this point. Thus M. Haupt, in his *Histoire Monétaire de notre temps*, has represented affairs in an aspect sensibly different. According to him the figures of the coinage of money in France from 1803 to 1872, better than any series of prices, however authentic, quoted on the London silver market, support the cause of bimetallism at the ratio of 1 to $15\frac{1}{2}$.[1] But I have no intention of combating the opponents of bimetallism on this point. I will accept for the time their manner of stating the facts; or in any case it seems to me useless to stop any longer over a matter of detail of this nature; and I will certainly grant one thing—namely, that during this period France has often had to bear the expenses of the situation, whilst all the other countries profited by the state of affairs established by her monetary *régime*.

It was at first France alone, and afterwards the Latin Union, which kept up the equilibrium between gold and silver relatively to the distribution of these metals in the commercial world. And how could any one expect that one single country should fulfil this office, without, in this same country, sometimes one

[1] O. Haupt, *L'Histoire Monétaire de notre temps*, p. 45.

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metal, sometimes the other, flowing in and displacing the other to a greater or less extent.

France was, in fact, the pivot of a pendulum. The play of supply and demand put the pendulum in motion, but owing to the pivot the motion was limited; and the pivot has been able to keep the pendulum from going off its bearings altogether.

And now consider afresh those well-known tables of the prices of silver in London during the period of the system of the double standard in France; and recollect at the same time the fluctuations which have taken place in the relative amount of the production of these two metals; and is it then possible any longer to doubt the enormous influence which the working of the monetary system of France has exercised on the stability of the relative value of the two metals?

Monetary unity has, in fact, been really preserved in the commercial world by the working of this system so long as it has lasted. Not indeed quite perfectly, as I have said before, and as, I may remark, the bimetallists have always admitted. When, in the years immediately preceding 1870, M. Wolowski and M. Cernuschi began their campaign in favour of bimetallism, one after the other declared that the system of the double standard, to produce its full effect, must be adopted internationally. And since then the supporters of the movement have asked nothing else.

Never indeed have the bimetallists desired that France alone, or the Latin Union, should go back on the decisions taken from 1873 to 1878. Bimetallism has always been defended as a system which absolutely requires to be adopted by a convention or an understanding of an international character. It is not too much to say that it is precisely this which distinguishes

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bimetallism from the double standard system of former times; in this respect it is even directly opposed to the old double standard system.

None the less one may continue to say, and say it with perfect justice, that the effect on the commercial world exercised by the system of the double standard in France affords historical demonstration that the theory of bimetallism rests on a solid basis.

The distinction to which I here direct attention is one that those who run down bimetallism systematically disregard. When it is taken into account, the foregoing objections fall to the ground.

It is true that France has been liable to see its money incessantly in movement, as long as its system was that of the double standard. But why? Solely because it has hitherto been the only nation to have this system; and so it was possible that either its silver money or its gold money might enjoy a preference. But this could no longer be the case when the system of bimetallism had once been adopted on a large scale in the commercial world as a whole. Or rather such a preference for one of the two metals could only take its rise outside the bimetallic group; hence its operation could not be important; and as, further, it would expend itself on the whole body of bimetallic nations, its effects would not appear at all.

Similarly Gresham's law will no longer find a sphere for its action. For depreciated metal to drive out metal that is preferred, it is needful that there be for the latter a centre of attraction outside the country. And as soon as bimetallism becomes the international monetary system, such a centre of attraction will no longer exist.

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There are other arguments which have been advanced against the possibility of putting the bimetallic system in practice, or of maintaining it.

On this point Mr. Giffen in particular has shown himself very fertile in his letter to the *Times* of 26th December 1889.

First of all he raised an alarmist cry, which was thoroughly adapted to spread terror through the City of London. There are—he said—about £600,000,000 sterling of deposits in English banks. Now as soon as people really believe in the imminence of the adoption of bimetallism, every one will wish to withdraw his deposit from his bank, while he has still the right to demand payment in gold. For bimetallism will mean a reduction in the existing value of gold, and no one will be willing to run the risk of having subsequently to accept silver money, with a ratio to gold of 20, 18, or perhaps even 15½, when at present he can get 21 ounces of silver for his gold instead of the future 20, or even 15½ ounces. But if the sums entrusted to the banks were simultaneously withdrawn, the banks could not meet the demand. And so the triumph of bimetallism—such is Mr. Giffen's conclusion—will mean general bankruptcy.

Due justice has already been done to this reasoning in several letters on the matter written to the *Times*, and published in its columns. Let us in our turn examine it.

Mr. Giffen starts with the assumption that from the moment bimetallism is adopted, gold will fall in its market value as compared to other commodities. It remains to be seen whether this would really be so, even with the ratio fixed at 15½. It is a matter we shall have to concern ourselves with later, and we cannot

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waste time over it now. But let us assume that the forecast is correct. What then would follow? Surely that the very last thing depositors in banks ought to try and get in payment of their deposits is gold. What they ought properly to do, provided they can freely dispose of their funds and have no need to keep them at their disposal to meet the requirements of their business, is to buy commodities. And indeed there might be a certain movement in this direction, which, however, would soon find its corrective in the rise in prices it would occasion. But in any case this would be nothing but an exchange of commodities between different persons, and the position of the banks would be no more shaken by it than by any other similar operation for a rise in the price of commodities. There is still another thing that might be done; and that is to buy silver. But then how many million pounds sterling worth of silver would any one find to buy at such a time at a price which would leave a margin of profit on the ratio which every one knew was to be established? It is not probable that it would be a large sum. Here also there is nothing to make us uneasy.

But now let us suppose—says Mr. Giffen—that bimetallism were adopted by law. Should we have got much further, or would the bimetallic system turn out to be simply a legal fiction and not a reality at all? He himself, it is scarcely necessary to say, has no belief in this reality. According to him, the *régime* of bimetallism will in practice end in nothing but a *régime* of silver money, and then by the side of the legal money there will be gold which will be at a premium,

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and which all the same will be used as the standard of value in a large number of contracts.

Such doubts on the possibility of seeing bimetallism really adopted for the transaction of business are nothing new. They are to be found in the evidence in the inquiry of the Gold and Silver Commission. But even the anti-bimetallist section of the Commission did not attach much weight to them.[1] Still they have been reproduced at the Congress of Paris.

There, for example, M. Coste showed himself very uneasy about the future which the bimetallic system was preparing for silver. He already saw Europe flooded with the metal. But in the first place the calculations which M. Coste has put forward are not fair. He represents the state of affairs as if there were only $16\frac{1}{2}$ milliards of gold money, and $9\frac{1}{2}$ milliards of silver money of which account need be taken, and as if by far the greater part of the silver annually exported to Asia and Africa would then melt away into Europe; what is more, as if a large amount of the silver actually accumulated in the East would be re-exported to Europe.

As against M. Coste's figures I give the following: about 20 milliards of gold money, and an almost equal amount of silver money, since obviously we have to take into account for our purposes not only the monetary stock of countries which are generally called civilised, but the stock in its entirety, including that of Asia and Africa. And here I am led to ask where M. Coste finds the amount of 30 milliards of unminted silver which he speaks of. According to the best figures, the production of silver is estimated to have amounted, down to the present time, to a total of about 45 milliards of francs,

[1] See the *Final Report*, Part II. par. 119.

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as against about 40 milliards of gold.[1] Subtract from these 45 milliards the 20 milliards of minted silver,[2] and there remains 25 milliards. But of these 25 milliards how great an amount, during the five centuries over which the statistics I have mentioned extend, must have been absorbed in industrial uses and lost. It may be fairly assumed that it is not a sum of 30 milliards, or even of 25 or 20 or 15 milliards of unminted silver, as M. Coste expresses it, of which we must take account as liable to be in part converted into money, but in reality only an amount quite insignificant.

Secondly, in my opinion M. Coste is decidedly mistaken in his estimate of the power of Asia and Africa to absorb silver. It is true that we may expect that at the first moment of the adoption of bimetallism, particularly if the legal ratio of the two metals is fixed at $15\frac{1}{2}$ to 1, there will be a more or less sensible diminution in the export of silver to the East. Nevertheless one can confidently predict that in any case there will not be a complete reversal of the usual movement. There is a precedent for this which is instructive.

In consequence of the Civil War in the United States of America, the price of Indian cotton experienced a great rise, and the export of it to Europe increased enormously. At the same time the export of silver to British India rose to figures never before known. In the year 1865-66 it reached the colossal amount of 184,000,000 rupees. At the end of the war a marked reaction naturally followed. The exportation of Indian commodities fell from 655 millions of rupees in 1865-66 to 419 millions the following year, and between 1867-68 and 1870-71

[1] See the different figures quoted in M. Roswag's recent book, *L'Argent et L'Or*, vol. i. (Paris, Dunod, 1889).

[2] For this amount see Dr. Soetbeer's Statistics; and Haupt, *L'Histoire Monétaire de notre temps.*

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fluctuated between 500 and 550 millions. But did it also follow that the movement of silver changed its direction? Not at all. The importation of metal to India certainly diminished, but in no year was it changed to an exportation. It fell to 9 millions in 1870-71, and to 7 millions in 1872-73, when it was at the lowest, and even this was only because other circumstances contributed to the fall. From 1866-67 to 1869-70 importation kept up even to an amount varying between 55 and 86 millions.

And the reason of such a course of things, which doubtless would have been quite different in the case of a European country, is not difficult to find. It is that in India, as in all the East, and generally in countries of a more or less inferior civilisation, there still exists a very pressing need of cash. It follows that on every favourable occasion, whenever from one cause or another the economic situation improves in those countries, these wants are as far as possible satisfied. And notwithstanding all that has been done in this direction infinitely more remains to be done. It is only as yet on the confines, as we may say, of the Oriental world that the state of things is beginning to become in any degree analogous to that of European countries; but in the interior of the different countries which it comprehends, and for the whole of more than one of them, there is nothing of the kind.

Now it is certain that the adoption of bimetallism by Europe would be on more than one account a real benefit for all these countries, and would contribute largely to their development. We need not then have any apprehension of an inundation of Europe by silver, so far as the East is concerned.

For my part, far from sharing such fears, I should

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rather assent to what M. Haupt wrote on this subject not very long ago. If we devote ourselves to a thorough study of the situation which will be created for us after what he calls the *rehabilitation of silver*, it will very probably present itself in this form. It would not be gold which would be at a premium, but, strange to say, silver! This latter metal, if we take into proper account the whole combination of circumstances, would be in the first place excellent domestic money, good for all local transactions; next, international money; and in the last place the money *par excellence* for India, China, the Straits Settlements, Japan, etc. These countries ask for nothing else in payment than white metal; and as at the mint price, less a small fraction for expenses, all the large banks are buyers, it follows that a greater or less premium would have to be offered to get what was required for export to the East.[1]

As to over-production from the silver mines, of which again M. Coste has spoken, it seems that neither from this side is there any danger to the maintenance of the bimetallic *régime*. "But see," we are told, "how much the production of the silver mines of the United States has increased from 1870 to 1887, notwithstanding the fall in the price of silver (relatively to gold) from $60\frac{5}{8}$ to $44\frac{5}{8}$. What will it not be when the price has again risen, and when we shall see the mines which of late years have reduced their output again in activity, and the ore which has been already raised, but which could not be refined at the present price of silver, turned into metal?"

To this the answer is first that people forget that it is not only the price of silver which has fallen, but that there has been a fall in prices, with respect to gold, more

[1] *La Réhabilitation de l'Argent*, by Ottomar Haupt. Paris, 1881.

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or less general, and that consequently the expenses of the production of silver must have diminished also. Secondly, that the period in question was that of the development of the great network of railways in the United States, thanks to which, mining regions can now be profitably worked which before were inaccessible. Thirdly, that it is not the mines at present abandoned and the ore which it did not pay to work which would, under any circumstances, occasion an overproduction of silver. And, finally, that if in fact the production of silver should go on increasing, and that even to a considerably greater extent, there would not really be much harm done. Quite the contrary; for what we must really consider is that—notwithstanding the increase in the production of silver of late years, and the poor position given to this metal by the monetary situation of the present day—it is not possible for the moment to talk of its overproduction. I am guided in this by what has been quite recently written by Dr. Soetbeer, whose authority in this matter no one can deny. This is what we read in the statement which he wrote for the Paris Monetary Congress and which is dated the 12th August 1889: "In view of these approximate data it may be affirmed with confidence that in one way or other there must have been created in these last two years an employment of silver corresponding to the increase of production."

And we may take it as certain that so soon as the adoption of bimetallism puts an end to the obstacle to a monetary reorganisation in different countries, which the present situation creates, new demands of great importance for the precious metals will arise, and will continue to arise—demands, moreover, which will apply by preference to the white metal. Thus there is the

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Argentine Republic. One can understand that for the moment its Government may not be willing to adopt the silver standard; it may, however, follow the example of the United States and of Europe, and adopt the bimetallic standard; and what an immense field would at once be opened for the absorption of the white metal in the interior of these new countries, by which at the same time their future development would obtain that solid basis which is at present wanting.[1]

I say, then, that as to a premium on gold under the bimetallic *régime*, there is no reason to fear that it will be produced under the influence of a superabundant supply of the white metal.

Let us see at the same time whether it would be probable, provided some persons had such a preference for gold, that this metal would be withdrawn from circulation and hoarded, and this to such an extent that the above consequence became inevitable. For this is what the supposition really implies.

I confess that this appears to me literally impossible, and that the supposition strikes me as something really monstrous. Let us state the case precisely, and it will

[1] This remark on the subject of the Argentine Republic was written when the *Economiste Français* of the 5th April, in an article by M. Joseph Chailly, published the opinion expressed, it is said, by Dr. Nin, delegate of Uruguay at the Pan-American Congress, concerning the small chance of the success of this Congress. We find there the following passage regarding the monetary question: "A circulation of silver common to the whole of America is a mere jest, since each of the American nations has an enormous trade with European countries, which have for a long time back adopted the gold standard. It would be necessary, therefore, to adopt the gold standard with a subsidiary silver coinage, but that will not pass the Congress of the United States."

This opinion of a quite competent authority proves the correctness of my view. It will be observed that Dr. Nin does not say that the circulation of silver is to be considered impossible in itself for the countries of South America, but solely on account of the adoption of the gold standard in Europe.

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be seen that I am not saying too much. There is at the present time in circulation gold money to an amount of about 20 milliards of francs, and silver money to about the same amount. But of these 20 milliards of silver money —reckoning what is required to discharge the function of the larger subsidiary money in Europe, etc., and for ordinary payments in countries, like, for instance, British India—there is at least half which could not in any way be replaced by gold. There would remain 20 milliards of gold and only 10 milliards of silver money, which could be used indifferently, of which two-thirds of the total is gold coin and one-third silver coin. And even if, in view of the question which occupies us at present, the distinction which I am making should not be admitted, still it would always be the fact that half of the monetary circulation would consist of gold coin. Now, to what extent is the hoarding of gold likely to be carried? To one milliard? That appears to me doubtful. And it remains to be seen whether it might not be done even in much larger proportions without in consequence a premium being really established upon gold, at least in any durable manner. Anyhow, what would certainly take place if people began to hoard gold would be that, for as much as was hoarded, an equal amount of money would be withdrawn from the circulation. And this would be no trifling affair, and would inevitably cause difficulties in the Money Market and an alteration of the value of money in terms of commodities, which at the same time would disarrange all the calculations and speculations of the hoarders.

But is it really necessary to take serious notice of such suppositions? Are not these predictions of misfortune, by which it is attempted to frighten the timid, sufficiently shown to be groundless by what we see going on around

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us? The present condition of silver in the countries with the *étalon boiteux* is really not better than it would be under the bimetallic *régime* as it is viewed by the detractors of the system. And yet it does not appear that any difference is made in France, for example, or in Holland, between legal tender money in general and gold money, whether in everyday transactions or in contracts for deferred payments.

There is, lastly, one other difficulty which has been raised against the adoption of bimetallism, concerning which we must say a word here. It is that the contracting parties would be exposed to the danger of seeing the agreement broken by one or more amongst themselves.

This is one of the chief objections of those who signed the second part of the *Final Report of the Gold and Silver Commission* against bimetallism in general.[1]

Now, for those who really have confidence in the results of the system when put in practice, this is an objection which, so to speak, does not count; for, with the best will in the world, they cannot imagine what should occasion such an action, unless it were the necessity to which a country might find itself reduced of resorting to the use of inconvertible paper money. But in this case the evils which would result to other countries would be rather lessened than aggravated by bimetallism. It has indeed been said that such a measure might be taken in case of war by one or other country, in order to inflict an injury on its adversary; but it is difficult to conceive a Government which, under such

[1] See the *Final Report*, Part II. par. 115.

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circumstances, should deliberately increase the difficulties of the moment by a modification of its monetary system.

But, as regards the significance of the above objection, we have to put ourselves in the place of those who make it, because they are still in doubt of the advantages to be derived from the bimetallic *régime*. And one can understand, in fact, at least to a certain point, this hesitation on the part of England. She has a double decision to make—that of changing her monetary system, and that of doing it by means of an international convention. Yet I think her hesitation ill founded.

For whatever England might risk in binding herself in this manner, she runs risks much more serious of seeing her monetary and economic situation—that of her own country as well as of her Indian Empire—seriously compromised by leaving things more and more to take their course according to the decision which others may make without her. She has perhaps a greater interest than any other country in putting an end to the uncertainty to which the present situation gives rise. For England especially, in view of her different interests, this uncertainty is infinitely more dangerous than any uncertainty about the solidity of the bond to be constituted by international agreement. Should this bond at any time be broken — which, however, in my opinion, is not at all likely — she would still lose less by that than by not seeing it formed now.

As to what one reads in the above-mentioned Report on the subject of the difficulties which would arise in case of the rupture of the agreement, or the special stipulations which would have to be agreed upon in the

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Convention to be concluded, I do not think that there is any reason for anxiety on this point, because, according to my way of thinking, these stipulations would be for the most part useless. But this belongs to the method of application of the bimetallic system, with which we are not at present concerned.

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CHAPTER IV

THE PRESENT SITUATION

HITHERTO we have been chiefly occupied with bimetallism in the abstract. I have stated the theory of the system, and defended it against the attacks of which it is always the object. I have pointed out the merits of the system. And lastly, I have replied to those who declare that the bimetallic *régime* could not succeed in practice.

But it remains to examine what would be more particularly the results of the adoption of the system, having regard to the existing state of things and to the different interests at stake, in the position created for them by the present monetary situation.

It is not inconceivable that a system might be good in itself, in theory, but that there might be reasons why its application at a given moment would do more harm than good. Is this perhaps the case at the present time with regard to bimetallism? I acknowledge that this is a question worth examination. Thus one often hears it said that it would certainly have been desirable to prevent the monetary confusion which followed upon Germany's adoption of the gold standard by an international bimetallic agreement, but that as things stand now it is better to leave them as they are. This is an argument which is by no means absurd, though it may not be correct.

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Let us then sift the problem to the bottom; let us try to look into all its details. It is this, I think, which Sir H. Meysey Thompson had specially in view in drawing up the conditions of the competition opened by him in the terms which I have already quoted.

When we approach the subject in this way, it becomes particularly important to take into account the consequences of the modification which the monetary situation has undergone since 1873. I shall, therefore, begin by stating, as briefly as I can, what I think on this point.

We are confronted with one evident fact—that there has been a heavy fall in the value of silver relatively to gold. But when this has been said we have done with events which cannot be interpreted in two ways. Does the modification of the ratio between the two metals proceed from a rise of gold or a fall of silver? Here, at once, we have a point on which opinions are divided.

For my part I do not hesitate to affirm that it is gold which has risen. There has been from time to time a certain fall in silver, and especially a local fall—that I do not dispute. It was certainly the case in Europe at the time of the demonetisation of silver in Germany. But we are not now speaking of such temporary movements. The question is, What has been the final result? Now, on this point it seems to be indubitable that the rise in gold has outweighed the fall in silver; it is even probable that, all things considered, it will be found that there has been no fall in silver at all.

I need not, I think, recall all that has been written on this subject in order to justify my remark. One observation will suffice. And this, I confess, seems to me quite conclusive. It comes to this, that, by admit-

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ting the appreciation of gold, we find that all the facts agree and hang together. But if we listen to those who maintain that it is not gold which has increased its value but silver which has lost it, then every moment we come across halting arguments.

Thus it is evident that from 1873 to 1886 or 1887, there was a general lowering of prices of commodities in countries with a gold standard. In countries with a silver standard, and notably in British India, prices remained on the contrary remarkably stationary during this period. This immediately leads us to think that what has really happened has been that gold has appreciated.

"Not at all," it is said, "and it would be a great mistake to rely on these appearances. That prices fell more or less generally in countries with a gold standard is incontestable, but the reason lay in different circumstances, the combination of which caused this movement; and the scarcity of gold—which, besides, you are wrong in alleging, for it never existed—had nothing to do with it. It is true also that in countries with the silver standard, and especially in British India, prices remained about the same; but they would have gone down if it had not been that silver diminished in value. In consequence of that fall in the standard metal, prices now look as if they had been stationary; but what really took place was that there were two movements which neutralised each other so far as their effect on the price of commodities was concerned."

What are we to say? The argument may seem somewhat specious; yet it contains an explanation which, at least at first sight, appears to leave nothing to be desired. But let us look at it more closely.

If the assertions which it contains were correct two

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things would follow, so far as regards the state of affairs in Europe and the United States of America. First, notwithstanding that the demand for gold underwent an important modification, the rate of exchange between this metal and other commodities must have remained unaffected; which is impossible. Secondly, in regard to the fall of prices, there should have been a correspondence between the effect produced and the causes to which it is attributed; and this correspondence we do not find.

The demand for gold greatly increased—that is a demonstrated fact. It was, as may be remembered, Mr. Goschen especially who fixed attention on the great importance of the different monetary events which have distinguished the period of which we are speaking in their bearing on this point. And although others since then have attempted to lessen its significance, they have not been successful. They could not be, for nothing can contend with the logic of facts.

According to calculations based upon Dr. Soetbeer's figures, there have arisen in the years 1870 to 1885 new demands for gold for Germany, the United States, the Scandinavian kingdom, and Italy, which, taken alone, exceeded the amount of the production of that metal in the same period (after making deduction for the industrial employment and for the exportation to the East) by the sum of a milliard of francs in round numbers—that is, by about a sixteenth of the total amount of gold money which, towards the end of that period, had been distributed in Europe, the United States, and Australia.

It follows, then, that in the other countries taken together not only can there have been no augmentation of gold currency during the said period, but the above-

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named milliard must have been taken from their monetary circulation. And, besides, of the new demands I have only taken into account those of the four countries above mentioned, along with which, however, there must have been similar demands from other quarters.

Without entering into other details, and considering merely the facts stated, it appears really impossible not to admit that the rate of exchange between gold and other commodities must have been so modified as to give an increased value to gold.

To prevent this it would have been necessary that some other circumstances should have caused the demand for gold, as it formerly was, to have undergone a marked reduction—a reduction, in fact, so important that the habitual demand should have given place to a considerable excess of supply. Now we know nothing of such circumstances.

But more than this. It is well known that during the whole period which has elapsed since the monetary change in Germany, the money market has constantly been under the influence of a scarcity of gold. This is a point to which I shall return presently.

Let us first continue our argument, and see whether the general fall of prices can be explained by other reasons than those which we find in the monetary situation.

Those who maintain this opinion say that the fall in the price of commodities finds its explanation in the diminution of their cost of production, in consequence of the progress of industry and of the means of transport. This proposition has been defended, for instance, with undeniable ability and great erudition by Professor Nasse, in the treatise which he wrote for the Gold and Silver

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Commission, and which is published in the Appendix to the Second Report of that Commission.

It is impossible here to go into a discussion of the subject in its details, and to examine the different arguments which have been brought forward on either side. But there is one thing on which I wish to fix attention: it is a point of such importance and of such wide bearing that in my opinion it closes the debate. It is this: that if in reality the fall in the price of commodities had been the consequence of the diminution of cost of production, the result would have been a general augmentation of wealth and prosperity, together with a great commercial and industrial development. We know that the very contrary has taken place. Never before has there been known such a long period of depression and uneasiness as this, of which everywhere in the civilised world complaint has lately been made. Here then we have another contradiction, between the effect produced by the fall in the price of commodities and the cause to which, in opposition to that of the appreciation of gold, it is sought to attribute it.

Let us now examine, in the second place, whether the statements of those who believe in the depreciation of silver and not in the appreciation of gold, in reference to what has taken place in the East, and especially in British India, are any better founded than their assertions respecting what has occurred in Europe. "There have been in the East," say they, "two things, a fall in the price of commodities and a diminution in the value of the standard metal; and," they add, "the downward movement which has taken place in commodities has shown itself in the same way in wages. Wages have not, it is true, undergone any apparent reduction, as has been the case with commodities;

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but, like them, they have experienced a real fall in consequence of the diminution in value of silver money. And indeed," they go on to say, "it could not have been otherwise; for, according to the economic law most fully expounded by Ricardo and Cairnes, the rate of time-wages in a country always depends directly upon the prices of the principal articles of export. If the latter go down the former cannot be maintained. Now, if we consult the London price-list of the principal articles of export from British India, we see at a glance how much they have fallen. It necessarily follows that wages, and even the price of commodities in general, must have undergone a great fall in British India. But that is not evident because of the simultaneous fall in silver, the standard metal of the country."

The mistake committed in this argument is a two-fold one. There is an attempt to apply an economic law in a case where the conditions necessary to make the application possible are absent. And the argument is based on an assumption, whilst what is assumed is exactly the point which has to be proved.

The economic law in question requires for its application a monetary unity between the countries which export the commodities and those for which they are destined. Now, at the period of which we speak, such a monetary unity no longer existed between British India and England. This distinction, it is true, was not made by Ricardo and Cairnes; but these authors, when they wrote, had only the existing state of things in view—and at that time monetary unity did in fact exist, as the bond which maintained a fixed (or practically fixed) ratio between gold and silver had not yet been broken.

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Further, it is said that London prices show that the principal articles of export from British India have undergone a marked depreciation. Yes; a depreciation relatively to gold: there has been a modification of the proportion of exchange between these commodities and gold. But if it is gold which has become dearer, then there has not been a diminution in the value of the commodities. Now the point is just this —to know whether it is gold which has gained in value, or silver which has lost. It is to no purpose, then, to speak of depreciation, which is a merely relative term.

The economic law above mentioned puts us, however, in the right way to find the solution of the problem which occupies us. It teaches us that when a modification is produced in the conditions of exchange between two countries, the conditions of export from one of these countries to the other becoming less favourable, this shows itself in two ways — by the fall of the price of articles of export in their own country, and by the diminution of the trade of the country with foreign parts, and especially of the amount of its imports of commodities in proportion to that of its exports.

Here, then, is a small table, containing in the first two columns the figures of the exports and imports of British India for the period from 1865-66 to 1884-85, both annually and in periods of five years, and in the third column the ratio between exportation and importation :—

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Years.	Amount of Exported Commodities.		Amount of Imported Commodities.		Ratio of Importation to Exportation.	
	Millions of Rupees.				Per cent.	
1865-66	655		296		45	
1866-67	419		290		69	
1867-68	509	= 2639	357	= 1632	70	= 62
1868-69	531		360		68	
1869-70	525		329		63	
1870-71	553		345		62	
1871-72	632		321		51	
1872-73	552	= 2851	319	= 1685	58	= 59
1873-74	550		338		61	
1874-75	564		362		64	
1875-76	581		389		67	
1876-77	610		374		61	
1877-78	652	= 3124	415	= 1968	64	= 63
1878-79	609		378		62	
1879-80	672		412		61	
1880-81	746		531		72	
1881-82	820		491		60	
1882-83	835	= 4116	521	= 2653	62	= 64
1883-84	882		553		63	
1884-85	833		557		67	

It is clearly seen from this table that there has certainly been a slight diminution in the amount of importation relatively to exportation in the five-year period from 1870-71 to 1874-75, in comparison with that of 1865-66 to 1869-70; but already towards the end of the period 1870-71 to 1874-75 the former ratio was re-established, and since then it has even been more favourable still. And the trade as a whole has constantly increased since 1872.

Now, let us consider the figures of the import and mintage of silver metal in British India during the same period.

I append details of this.

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Years.	Silver Metal. Millions of Rupees. Importation.		Mintage.		Ratio of the mean of Importation and of Mintage to the total Exportation of Commodities. Per cent.
1865-66	186		146		
1866-67	69		61		
1867-68	55	= 469	43	= 367	15·8
1868-69	86		42		
1869-70	73		75		
1870-71	9		17		
1871-72	65		17		
1872-73	7	= 152	40	= 147	5·3
1873-74	25		24		
1874-75	46		49		
1875-76	15		25		
1876-77	72		62		
1877-78	146	= 350	162	= 424	12·4
1878-79	39		72		
1879-80	78		103		
1880-81	38		44		
1881-82	53		29		
1882-83	74	= 301	73	= 247	6·7
1883-84	64		41		
1884-85	72		60		

These figures would no doubt require to be very carefully studied in order to gather from them any very definite indications as to the economic situation of the country, and if it were desired to use them for such a purpose many things would have to be taken into account.

But, taking them just as they are, they certainly show that the importation of silver to British India and its mintage are far from having assumed any extraordinary proportions in these latter years. It rather appears from them—by the way—that most certainly, as the development of the interior of the country continues, there will be found additional powers of absorbing this metal.

Yet if there had really been a fall in silver in

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British India, it could only have taken place in consequence of a superabundant importation of that metal.

It is evident then that the estimate of what has gone on in British India, according to which we should have to take into account a depreciation of silver and not an appreciation of gold, is again erroneous.

And now let us return to the history of the money market. Never has this market been characterised by so great and so constant an abundance of disposable capital as of late years. The rates of discount have rarely been lower, and especially have never remained so long at such a low level. And everywhere the optional conversions of State funds and other securities have been the order of the day. This has been said and repeated a hundred times, and it is certainly a fact which no one disputes; but we have to estimate its real value.

Now it is, in fact, the long commercial and industrial depression which everywhere has caused capital to flow into the money market, to seek there a temporary employment, or else to secure itself against the losses resulting from the lowering of the price of commodities by placing itself in the public funds.

The abundance of disposable capital is thus the direct consequence of the appreciation of gold. Capital has turned away from commerce and industry, and has taken refuge on 'Change; while at the same time the course of events has led to diminished demands on the banks for credit. Thus the position of the banks has become very strong, and the visible stock of money has very considerably increased. Nevertheless this abundance of cash was only very relative; and this is especially the case with respect to gold money,—for there is room here to make a distinction. It is

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not to be denied that the metallic reserve of the Bank of France has become very large of late. But its reserve in silver money is of no use for international payments, and cannot therefore be regarded as having the same importance as the reserve of gold.

We say then that the abundance of cash in the banks—which some persons have considered a sufficient proof that there had not been a scarcity of gold—was only relative. This has been quite evident again and again as the real state of things has manifested itself in demands for gold metal for export.

To estimate the situation properly we must specially observe the London market. For, as M. Raffalovitch lately said in his *Année Economique*,[1] "The London market is still the first market of the world, and, if it is desired to compile the balance sheet of a year, it is on this side that we must look first." And I add that we must do the same if we wish to make a balance sheet of the general situation at a given time.

Now, Mr. Giffen, in an essay on the monetary position, written in 1885,[2] has given a *résumé* of what has passed in the London market during the whole period from the beginning of which we date the commencement of the contraction of gold. In this *résumé* he points out that during the whole period from 1871 to 1885 not a year has passed without the rate of discount having temporarily risen in a high degree. At the commencement of this period, he says, at the moment when the prices of commodities were still at their maximum, but when the "contraction of gold" was beginning, the money market was completely upset.

[1] *L'Année Economique*, 1888-89, by Arthur Raffalovitch. Paris, 1889.

[2] "Gold Supply; the rate of Discount and Prices," *Essays in Finance*. Second Series, by Robert Giffen. London, 1886.

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But in the following years also, although then the annual average of the rate of discount was not so high as in the preceding years, which indicates a greater abundance of capital, the market continued to be disorganised; and in each year there was at least one month during which the rate was very high. From 1875 to 1879 there was regularly a fall of the rate down to 2 per cent, and yet the maxima of the monthly averages rose to $4\frac{1}{2}$, $4\frac{5}{8}$, $4\frac{7}{8}$, $5\frac{5}{8}$, and $4\frac{1}{2}$ per cent. Formerly, when discount fell to 2 per cent, the maximum rates also continued to be low; and the new state of things can only be attributed, Mr. Giffen says, to special circumstances. These circumstances continued to make their influence felt, though in a less degree, during the years 1880-85 as well. The whole time, he tells us, we were under the influence of the action of the monetary contraction.

However, the influx of disposable capital in the London market, as elsewhere, more and more exerted its ascendency on the state of affairs; and the ultimate result has been that plethora in the money market which reached its maximum in the years 1886 to 1887.

But what have we seen since?

From 1888 dates a real reaction, which has declared itself generally in all the branches of trade and industry, and which has been on the increase since about the end of 1889. It has had a double cause. A fairly steady fall in the price of commodities up to 1887 had at length brought them back to a level which was in agreement with the new monetary situation. At the same time the political situation, which during long years had contributed to the general depression, began to brighten. Business then revived and seemed at last to take a new start.

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But all this promising movement lasted but a short time. Soon the scarcity of gold came in again to counteract it. Thus, while in the month of July 1889 the rate of discount in London was still at 2½ per cent, it had to be raised to 5 per cent in the month of September, and to 6 per cent at the end of the year; and during more than six weeks it had to be maintained at that rate.

With regard to these great fluctuations in the rate of discount in London, we must always, however, take into account the quite special organisation of the money market of the country, and the position in which this places the Bank of England. But still the facts which I have just recalled are extremely significant.

Let us add, however, that the demands for gold for Brazil and the Argentine Republic which have arisen within the last two or three years have contributed in a certain degree to render the recent situation of the London market more strained. Still—an important fact to notice—these demands have only been complied with in very trifling proportions. But for a long time past they have been a source of great disquietude, and still are so. The bankers who transact the business of those countries have hitherto succeeded in preventing a larger exportation of gold to those countries, but it remains to be seen whether this can be done for long. In the meantime a great injury has thus been done to the state of things in those countries, though unfortunately this is not the only evil from which they are suffering. However, it is not with this side of the question that we are occupied here. But I ask if it can be seriously maintained that the monetary condition of the commercial world is not feeling the disastrous

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effects of the scarcity of gold, and that a scarcity does not exist, in view of events such as these.

The great lesson to be drawn from the financial events of the last few months is this:[1] that the present monetary state of Europe does not permit either the extension of business in Europe itself, or any foreign operation which may occasion an exportation of monetary metal. And certainly it is impossible to pretend that this is a desirable and advantageous situation.

To convince oneself that this is indeed the case it is only necessary to look through the London financial papers of recent date. In their perusal nothing strikes us so much as the eternal refrain of a situation good as regards the abundance of capital, but at the same time full of danger on account of the demands for gold which may arise at any moment.

But, it will perhaps be said, the state of things in the London market is not to be found on the continent, or at least the situation there is not so strained. Now to this observation the answer is that it is very true that the weak side of the situation does not display itself there in the same form, but none the less it exists. The great continental banks have not to struggle for the preservation of their reserve of gold in the same manner as the Bank of England does; still they are no less compelled to defend that reserve rigorously, and they take good care to do so, but they do it in their own way. That is all the difference. And the continental banks have indeed rightly acted thus, for the most they have been able to do in this way has been to prevent their situation from being endangered by demands for gold. What has not been said in certain quarters on the subject

[1] [The reader must remember that this essay was originally printed in April 1890; seven or eight months before the financial difficulties so clearly foreseen by the author.—Tr.]

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of the increase of the gold reserve in the Bank of France in 1889, and of the general increase of this metal in the great banks of late years? But in this matter isolated figures are without any real significance.

The gold reserve of the Bank of France increased between January 1888 and January 1890, from 1100 to 1261 millions. That is certainly a great augmentation. But here is the total of the figures, which ought to have been taken into consideration in order to estimate the significance of that augmentation:—

	5th January 1888.	2d January 1890.
	Millions of Francs.	
Gold reserve . . .	1100	1261
Silver „ . . .	1186	1242
Notes in circulation .	2839	3155
Current accounts . .	532	747
Proportion of metallic re-	Per cent.	Per cent.
serve to liabilities .	64·9	64·1
Do. of gold reserve . .	32·6	32·3

Whence it results that in January 1890 the position of the bank was not even quite as strong as two years before, and that its gold reserve was still below a third of its liabilities.

Let us in the same way examine the position of the State Bank in Germany on the 31st of last December, comparing it with that of two years previously:—

	31st December 1887.	31st December 1889.
	Millions of Marks.	
Gold reserve . . .	566	534
Silver „ . . .	200	200
(I believe I am not far wrong in estimating the silver reserve at 200 millions.)		
Notes in circulation . .	1010	1160

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	31st December 1887.	31st December 1889.
	Millions of Marks.	
Current accounts and deposits at sight	332	348
	Per cent.	Per cent.
Proportion of metallic reserve to liabilities . .	57·1	48·7
Do. of gold reserve . .	42·2	35·4

We see then to what the gold reserve of the above bank was reduced on the 31st of December 1889; and yet this bank too was making a great appearance in the tables which were presented as destroying the "fable of the scarcity of gold."

For my part, on the contrary, I assert that the investigation of the money market, provided that the true significance of the facts and figures is duly noted, whatever be the method adopted in doing so—and there is much to be added to what I have said on this subject—shows clearly that the scarcity of gold is no fable, but a fact which is absolutely true.

And here once more I find a confirmation of my position respecting the real cause of the alteration in the rate of exchange between the two precious metals.

Consequently the problem with which we have now to occupy ourselves may be stated in the following terms: given that the revolution in the monetary situation resulting from the events of the last fifteen or twenty years has caused the appreciation of gold, what are the advantages which may be hoped for from the adoption of bimetallism?

We have not now to consider the intrinsic merits of the system, which have been discussed at the beginning of this essay.

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The restoration of monetary unity in the commercial world, the better assurance of the stability of the value of money, and of a more solid basis for the monetary organisation of every country,—these are not matters of indifference to private interests, any more than to social interests taken as a whole. But here we are dealing with advantages so evident and so important for all, that from our present point of view there is really no more to be said on the subject.

We may perhaps be allowed to observe with regard to them that they are advantages of the highest order; and even should it be found that bimetallism, while advantageous to many of the private interests concerned, might be prejudicial to others, we should have to inquire whether these advantages of the first order do not so take the lead of all other considerations that they alone should suffice to decide the question.

Let us then continue our inquiry and try to solve the problem indicated.

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CHAPTER V

THE SELECTION OF THE RATIO

At the outset a difficulty presents itself, in regard to which some explanation seems to be required. The influence which the adoption of bimetallism will exert on the progress of events will be in part independent of the ratio to be established between the two metals as legal tender money. But in part also this influence will greatly depend on the decision to be taken on this point.

Now, if my work were simply polemical, it would be perhaps politic to touch on the question of ratio as little and as late as possible. I might try, in the first place, to convince my opponents, and leave this delicate question aside as long as possible, and then we would turn our attention to it only in the last place. But here it seems to me that I ought to proceed differently, and state at once my opinion on the subject of the ratio which it would be desirable to adopt. Nor have I any reason for not acting thus, since I have a very decided opinion on this point.

I am fully convinced that an international agreement can only exist on the footing of the ratio of 1 to $15\frac{1}{2}$, the old legal ratio of France and of the Latin Union, or else 1 to 16, the legal ratio of America. Between these

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two ratios there is, in my opinion, no fundamental distinction to be drawn. But in practice it would certainly be better to keep to $15\frac{1}{2}$. In that case a recoinage of the silver money of the United States would be necessary, but this would present few difficulties. And in the contrary case it would be necessary to recoin the silver money of the countries of the Latin Union and of a good many other countries besides, which would be a much less easy matter. Besides, it would be more logical to return to the $15\frac{1}{2}$ than to stop at the 16.

To require, on the adoption of bimetallism as a principle, that France and the other countries which are in her position should make the sacrifice of the ratio of $15\frac{1}{2}$, would be to impose upon them a very considerable loss. It is to be feared that this would be a stumbling-block in the way of agreement and an obstacle really insurmountable. And this the more that nowhere has the hope been abandoned of seeing the divergence between the present rate of exchange between the two metals and the former one disappear, at least in a great measure, even without a bimetallic convention. The United States of America especially cling to this hope. In fact, the United States would only have to resolve to carry things with a high hand, to make silver at any moment experience a great rise in relation to gold.

I wish, however, to add, on the subject of the pecuniary sacrifice, that if this were the only point arising out of the question of the legal ratio to be adopted, it would certainly be a piece of good policy for the Governments concerned not to refuse absolutely to take it into consideration, and to try to bring about negotiations for a compromise if a difficulty should arise.

There are, however, interests of a quite different sort at stake in this matter. And so, for my part, I

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think that although the 15½ is not perhaps absolutely the only ratio on the basis of which an agreement might be arrived at, it is, above all, the ratio which ought to be adopted. The principal reasons which plead in its favour are of a quite special order, with which the question of pecuniary sacrifices has nothing to do.

This is how the case stands. The rate of exchange between gold and silver has changed, and at the same time that of gold relatively to other commodities. The reason is that the demands for gold have increased, while the supply has not increased and has even diminished: a contraction of money has therefore been experienced in the countries with a gold standard. And further, this contraction threatens to become still more serious. It is in order to prevent an aggravation of the evil and to establish monetary union in the commercial world (though this is a consideration which need not occupy us here) that it would be necessary to return to the use of silver as standard money side by side with gold. The demand for monetary metal would then fall on both the precious metals, and thus would be less, relatively to the supply, than is the case now when it can only be satisfied with gold.

At the same time this monetary contraction in the countries with a gold standard, although very marked, has hitherto been much less strong than it would have become if in reality gold coin only had been made use of as a legal tender.

But in adopting the gold standard the different Governments have allowed the silver money which was in circulation to subsist as fiduciary money, with the sole exception of the German Government, which, however, has not entirely carried out the demonetisation of

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silver. Consequently the monetary circulation of the countries with a gold standard has been augmented by all that amount of silver money; and this not at the actual selling value of the metal, but at its nominal value. And in the United States there has even been an additional coinage since 1878 of a large amount of silver money, which has entered into the circulation of the country under precisely similar conditions.

Thus there has been, for the countries concerned, the whole time that this state of things has lasted,—and it lasts still,—a monetary situation which is decidedly irregular and at the same time full of dangers. But the commercial world in general and society at large have profited by it; because if in these countries people had acted otherwise, the increased dearness of gold would have assumed still larger proportions, and the rate of exchange between the two metals would have undergone a much more marked modification.

Once let the bimetallic standard be adopted by an international understanding, and the situation will become normal again, the white metal being then rehabilitated and silver money becoming once more really standard coin exactly like gold. But on one condition—that the old legal ratio be also again adopted. For if this is not done all this overvalued silver money will have to undergo recoinage; and this would have a twofold effect. First, it would impose on the countries in question the pecuniary sacrifice before mentioned. Secondly, and this is the point to which I am coming, it would cause a new contraction of the monetary circulation, which would be of very great importance.

Its importance may be judged by the following figures:—

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In the United States the coinage of standard dollars had reached on 1st October 1889 the sum of	$340,000,000[1]
Adding for mintage during 6 months	15,000,000
Total on 1st April 1890 . .	$355,000,000

We know that the legal ratio in the United States is 1 to 16. Let us suppose now that the legal bimetallic ratio should be fixed at 1 to 20. The recoinage would then reduce this amount of dollars by 71,000,000. That is to say, a deficit of 368 millions of francs would be created in the monetary circulation of the United States.

We have not such reliable data for Europe as for the United States. But, according to the calculations of Dr. Soetbeer and M. Haupt, we may admit that there must be at present in circulation an amount of at least 5 milliards of francs of silver metal in fiduciary money; this amount is still in circulation at its nominal value, according to the ratio of 1 to 15½. Let the recoinage of this be made on the footing of 1 to 20, and a deficit of 1,125,000,000 francs would be at once created in the monetary circulation of Europe.

The two sums united make a total of about a milliard and a half; or nearly £60,000,000.

Now, according to the latest estimates of Dr. Soetbeer,[2] the monetary circulation of Europe, the United States, and Australia may be taken to amount at the present time to—

[1] Annual Report of the Secretary of the Treasury, 1889. Appendix A, p. 95.

[2] See Soetbeer's *Materialen*. See also in the *Compte Rendu in Extenso* of the Monetary Congress of Paris, the Report on the *Materialen* of Dr. Soetbeer by M. Coste, and the statement of Dr. Soetbeer on the production of gold and silver from 1885 to 1888.

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	Fr.17,400,000,000 gold money
and	10,500,000,000 silver money
Total .	Fr.27,900,000,000

and there would result, therefore, from the above recoinage, a contraction of the entire monetary circulation of these countries by more than 5 per cent. And in this I have only taken into account the recoinage of silver money properly so called, not that of subsidiary money. Nevertheless it would be undesirable that the latter should not undergo a similar recoinage. Now in this case the deficit created in the monetary circulation by the necessary recoinage would be augmented by more than a half.

Let us take yet another point of comparison :—

The annual production of gold is at the present time, still following the latest statistics of Dr. Soetbeer . . .	Fr.540,000,000
From which deduct for industrial uses	270,000,000
There remains . .	Fr.270,000,000
The production of silver is at its present selling value . .	Fr.530,000,000
From which deduct for industrial uses	70,000,000
There remains . .	Fr.460,000,000

Production of gold and silver together, net amount, 730 millions.

It would therefore require the entire production of two years merely to make good the above deficit, without leaving a centime for the natural increase of the world's currency, or for hoarding. And the production of three years would be required if subsidiary money were also submitted to recoinage.

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To choose such a mode of inaugurating measures intended to remedy the monetary contraction, from which the commercial world has now been suffering for more than fifteen years, would be in truth the height of folly.

The pecuniary loss, that is to say, the loss of capital which would be imposed in this way on the countries concerned, would only be, I repeat, the least of the evils thus caused. A new disturbance of prices would result, a general fall exceeding perhaps that which we have witnessed already, and which would be the more difficult to bear, because it would be produced in a much shorter space of time.

There could only be one remedy for the commercial and social confusion which would thus be created. Not only must all exportation of silver and gold to the East, and generally to those countries which at the present time have the silver standard, be stopped for three or four years, but besides that those countries must begin to export gold and silver to Europe and the United States by hundreds of millions. Now this again is hardly feasible, and should it take place the result would be a great disturbance of prices in those countries also; so that in the same degree as the general disturbance abated in importance in Europe and the United States, it would extend, on the contrary, to other countries.

To all this there is but one conclusion. It is that the adoption of the bimetallic system on the footing of a ratio of 1 to 20 ought really to be regarded as an impossibility. We absolutely must return to the ratio of 1 to $15\frac{1}{2}$, or at least to a ratio not far removed from this.

I venture, then, to invite special attention to the considerations which I have brought to bear in favour of

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the re-establishment of the old French legal ratio. For it seems to me that even amongst bimetallists the great importance of this cardinal point is not always sufficiently taken into account.

Let us examine, however, the reasons brought forward in support of the adoption of a different ratio. Or rather, let us see what are the objections especially raised against the ratio of 1 to $15\frac{1}{2}$.

We cannot do better in this reference than follow the Second Part of the Final Report of the English Commission, the special Report of those members of that Commission who declared themselves opposed to the adoption of the bimetallic system, and especially to the re-establishment of the said ratio.

The first objection which we find stated is that if the events of the last twenty years have caused an increased dearness of gold, which has produced a general fall of prices, or has shown itself in this way, the result of a return to the ratio of 1 to $15\frac{1}{2}$ would be a movement in the opposite direction. A general rise then would follow, and thus, by an act of the State, the bearing of all contracts between debtors and creditors, as well as of all commercial contracts, would be modified. The rise of prices might be considerable and lead up to a commercial crisis; and it might be above all injurious to the working classes, since wages do not always follow the movement of prices.

But in any case, it is said, the measure would be unjust. It would not bring any remedy to the losses sustained before, but would cause new ones; and if it is difficult to bear losses inflicted by events in which State action has no influence, it is quite a different thing to have to endure them in consequence of its interference. Besides this interference would be doubly culpable, because the

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monetary organisation ought not to be meddled with except in extreme cases, and certainly not in order to provoke an artificial rise in prices.

The objection of the English Commission is therefore founded on two assertions. The adoption of bimetallism with the ratio of 1 to 15½ would provoke a rise of prices, and is objected to on that ground. And there would be brought about an intervention of the State in an order of things in which hitherto its action has not been felt.

As to this first point we have seen already that Mr. Giffen has raised the same objection, or at all events that he too foresees a rise in prices as a consequence of the adoption of bimetallism. And the *Times*, adopting this view in a leading article of 4th January 1890, said that this is at bottom what the bimetallists are aiming at. At the Congress of Paris M. Levasseur also said that if the reunion of the two precious metals in the ratio of 1 to 15½, to make of them but one mass, one single monetary stock, could be done gradually, he would not have the same objection to the change which would result from it as in the contrary case, but that he too expected that such a measure would cause a sudden and important change, silver then reappearing as master of the situation as if by a *coup de théâtre*.[1] Well, I have just demonstrated that these fears and prognostications are without foundation. On the contrary, if we want, as far as possible, to leave things as they are, what we must have is bimetallism at 1 to 15½. And what the partisans of the system are aiming at is not to create a new commercial and economic disturbance, but only to put a stop to the appreciation of gold and all the evils which it has occasioned.

And whence indeed should come this sudden rise of

[1] *Compte Rendu in Extenso*, p. 105.

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prices which is dreaded? In Europe and the United States silver money is still part of the monetary circulation, at the ratio of 1 to 15½ or of 1 to 16. And though, as I have said above, the experience of the past teaches us that the export of the precious metals to the East may, under the influence of exceptional circumstances, slacken for a certain time, or may perhaps for a time cease entirely, yet we could never expect that those countries should on the contrary themselves export monetary metal. Lastly, as to a stock of unminted silver, which is said to be waiting for a favourable moment to pour itself upon Europe,—I am once more relying on Dr. Soetbeer,—there is none.

Then are we not to look for a rise of prices at all? I think that would be saying too much. A certain upward movement of prices in general would be quite probable, were it only through the moral effect of the deliverance from the present situation, which during all these late years has weighed like a nightmare on the commercial world. Trade and industry, no longer feeling themselves held in by the bridle of the monetary situation, would take a fresh start; and probably this would not take place without some improvement in prices. But there would be nothing in this movement to cause uneasiness. It would only be the healthy and vigorous recovery of business which we have desired for so many years, by which the working classes would be the first to profit.

"I am somewhat surprised at economists groaning over the general fall of prices"—thus M. Levasseur expressed himself at the Paris Congress.[1] The effort of men in production, said he, has it not for its aim the abundance and cheapness of wealth? Certainly abund-

[1] *Compte Rendu in Extenso*, p. 90.

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ance and cheapness of wealth is and ought to be the universal desideratum. But who does not know that abundance and cheapness are not synonymous with fall of prices?

The fall of prices which has prevailed in consequence of the monetary events of the last twenty years has been most prejudicial to the development of production; and the low prices which it has procured for us have been the prices of a state of poverty and suffering, suffering especially for working people, to whom the reduction of wages and the diminution of work have done immense harm.

If an end were put to this fall of prices, we may rely upon it most people would not complain of it, and society at large would greatly profit.

But as to a factitious and artificial rise, there is no reason why it should be produced. I will not deny, however, that when business is active there is more danger that the commercial and industrial movement may be pushed too far, and so give rise to exaggerated speculation, than when all is languishing, and trade and industry are under the influence of a general depression. But must we then prevent what is good because some evil may come out of it? And besides, a period of depression such as we have known of late years is much more injurious to trade than the worst of those crises which are so much dreaded. Indeed this very period of depression has engendered commercial crises just as much as an excessive activity of business could have done. The crises which are occasioned by depression merely have a different aspect, but they occur all the same. Have not the speculations in metals, which we have seen of late years, terminated also in crises? And it is really in that very depression, in that con-

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tinued fall of prices, that the origin of these speculations must be sought. People have tried to react against the fall and to force a rise, this time really an artificial one, and so have upset the market, just as might be done at another time by simply exaggerating a natural movement upwards.

But we should have to deal—the English Commission also said—with an intervention of the State in an order of things in which hitherto its action has not made itself felt.

This is, it appears to me, an argument of which the premises are not correct. The monetary situation of a country, up to a certain point, depends infallibly on the legislation on that subject; and the legislator may not only transgress by his action, he may do so quite as much by his inaction. The English Government has pleaded extenuating circumstances because it was not the one which took the initiative in the measures from which the present condition of affairs is suffering. The plea may pass. But it cannot be a reason for continuing to do nothing. Already there is a heavy responsibility weighing on England, since it was she who, by refusing in 1881 to rally to the proposals of France and the United States, made the execution of them impossible. And how much easier it would have been to adopt bimetallism then than now; how many of the inconveniences which are inherent in any change of the monetary system would have been felt in a less degree—what evils and miseries would have been prevented. But all these are vain regrets. What is important now is to shake off inaction at last. The consequences of the abstention of the British Government from joining the other States to solve the monetary problem have unfortunately made themselves

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thoroughly felt. Whether it acts or does not act, its share of responsibility for the resulting situation is the same: that is the position.

Another objection which is raised by the English Commission against the bimetallic ratio of 1 to $15\frac{1}{2}$ is, that there would result from it increased difficulties in the practical application of the system. We should have to fear, it is said, that it would be an additional reason for some people to give a preference to gold in spite of the bimetallic *régime*, and to hoard this metal; and at the same time the danger of seeing the international agreement break up at any moment would be increased.

Here it is clear that we have to do with persons who are not convinced of the truth of the theory of the system. But perhaps, too, there is something else. In the countries of the Latin Union, in Holland, etc., people readily grasp the notion that four pieces of five francs, for instance, would really again have the same value as the gold piece of twenty francs. But in England the present generation is not practically acquainted with the system of the double standard—hence a certain hesitation in properly representing to oneself what it would be in practice. It is indeed possible that this disposition of mind might still continue when bimetallism was first adopted; but no doubt it would soon pass off, and the influence which it might have on the state of things could not but be very limited.

England, we read again, is in possession of numerous obligations payable in gold, and any measure which might diminish the purchasing power of that metal would be prejudicial to the country.

I confess that this is an argument against which nothing can be said. If the interests in question are to

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take the lead of all other English interests, it would certainly be right to oppose anything which would hinder a further increase in the scarcity of gold; though such a policy would be one of expediency rather than of justice. But I doubt whether the majority of English people would not object to such interests being put in the front rank. In the first place, the commercial interests of the country would in this way be sacrificed to the class of fund-holders (*rentiers*); and, secondly, there are in England itself a considerable number of debtors mixed with the creditors, and they certainly do not deserve less consideration. In short, we can understand that the London Stock Exchange should attach importance to the above argument, but it is inconceivable that the Government should be led by it.

Next to the English creditors it is the proprietors of the gold mines of Australia and of the other colonies who are the objects of the consideration of the signatories of the Second Part of the Final Report.

It is a curious thing to meet with such an argument here, since in England people are so often pleased to accuse bimetallists of being protectionists (though they are only trying to eliminate the obstacles which international commerce finds in the present monetary situation), because they are believed or reputed to be defending the interests of the proprietors of silver mines. How often has this reproach been made to Americans; and at the Paris Congress, too, this assimilation of bimetallists to protectionists was a favourite topic with their opponents. Now, it is undeniable that we find in this passage of the English Report this very protectionist argument of which bimetallists have been accused.

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But let me take the opportunity of saying that nothing can be more unjust than this accusation of protectionism brought against bimetallists as such. They demand that the white metal should be restored to its ancient place as monetary metal, because it is for the public interest; and this is their only crime. There is no more protectionism in favour of silver in desiring its rehabilitation, than there is protectionism in favour of gold in opposing this desire. That, at the same time, there may be in the United States partisans of bimetallism who have rallied to it because they find it favourable to their private interests is possible, or rather we know that it is the case. But this is no reason for doubting the sincerity of American bimetallists in general.

Lastly, the English Commission, with reference to the question of the 15½, devotes its attention to the different interests concerned in British India.

Now, it is not to be denied that here is really the weak side of the situation, in view of the re-establishment of the former ratio of gold and silver. The course of exchange between England and British India would be most seriously affected by it, and a sensible modification of prices in India would be the result. But whatever might be the injuries thus caused to numerous private interests, there would be compensations not less important. First of all, the public finances would find here an immense advantage, and this would be a benefit to the whole population. Then, if only the Government were to take advantage of the new state of things to undertake on a large scale works of public utility, with capital borrowed from England, it might thus neutralise in a great measure the disadvantageous consequences of the sudden change from the situation into

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which the country has been brought by the present state of things.

It remains for me to recall, in reference to this question of the $15\frac{1}{2}$, a special consideration which has an importance of its own.

The ratio in exchange of the two metals, previous to the events of 1870 and the following years, had, during more than two centuries, only varied within tolerably narrow limits. From the middle of the seventeenth century to 1870 the ratio maintained itself between 1 to $14\frac{1}{2}$ and 1 to $15\frac{3}{4}$; and yet what changes there were in that long space of time, as well in the movements of the production of the metals as in the monetary legislation of the different nations. But after 1870 this comparative stability of the ratio gave place to violent fluctuations, and, in the end, to a very great depreciation of silver in comparison with gold. It is in vain to seek for the cause of this in the variations in production during this latter period. We may say, on the contrary, passing over the details of events, that it was entirely the result of the illusion which led Europe to believe that silver might be dispensed with as money properly so called, gold alone being sufficient.

Now, if by the adoption of bimetallism a return is made to the simultaneous use of both metals, this will be, so to speak, an acknowledgment that this belief has been mistaken. But then if we would be consistent we must also return to the old ratio. To substitute for that the ratio which has resulted from the mistake which was made would be to perpetuate rather than to remedy the original blunder.

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CHAPTER VI

THE PROBABLE CONSEQUENCES

In treating of the question of the ratio of $15\frac{1}{2}$, I have already spoken at the same time of the results to be expected from the adoption of bimetallism. This subject, however, is of such great importance that I cannot abstain from making it the subject of some further observations of a more specific character. But to avoid repetitions as far as possible I will be brief.

The evil from which Europe and the United States, or rather all the countries with a gold standard, have been suffering for nearly twenty years is, as I have already shown at length, the scarcity of gold.

Let me here make an observation by the way. I wish to make it clearly understood that in expressing myself thus I do not mean that this is the only evil from which the economic situation has suffered during this period. Thus there has been in addition anxiety on the subject of the political situation, which has during all these years exercised—sometimes more, sometimes less—a disadvantageous influence on business and on the spirit of enterprise. There have been greater military expenses, which, steadily increasing and demanding very heavy sacrifices, both pecuniary and of human productive force, have weighed heavily on the general production. And it

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is certainly in these causes, at least in part, that we must seek the explanation of the fact that the general uneasiness has been more felt in Europe than anywhere else.

There have been also other economic facts which have been prejudicial to a certain number of private interests, if even they were advantageous from the point of view of the general interest. Thus it cannot be doubted that the fall in the price of corn which resulted from the extension of the means of transport, and other events of the same nature, inflicted serious losses on the agriculturists of Europe. These losses indeed were compensated, and more than compensated, by the great abundance and cheapness of corn, so far as regards the interests of the population in general; but at the same time they have affected not only the persons directly concerned but others besides, in consequence of the solidarity of economic interests.

But beyond these various facts which have contributed to the uneasiness and general depression in many countries, without, however, having the same influence everywhere, there has been the evil we have named, from which the whole economic world has suffered: the scarcity of money in countries with a gold standard.

In two ways this scarcity of money has had an unfavourable influence on the course of events—through the lowering of prices and by the disturbance of financial contracts. There are two points to be distinguished on the subject of this lowering of prices, which is the result of the scarcity of money. Let us first recall the well-known fact that as it is true that in the long run the influence of the monetary condition will be felt upon all prices equally, so it is also certain that a change in that condition will only influence prices gradually.

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It follows that this change is in itself an element of uncertainty in business, and in that way, if in no other, is more or less injurious to it.

Secondly, even when the fall in prices which results from the scarcity of money is only apparent (in the sense that there is really only an alteration in the ratio of exchange between the commodity whose price has fallen and money, and not between this commodity and other commodities), the effect which this fall produces to the eyes of him who suffers the consequences is the same as if it had been otherwise; and it follows that this is always a cause of discouragement in business. But this is not all. For the manufacturer and the trader the fall of prices, though it may present itself under the above condition, will be for the most part also a cause of very real losses. A commodity is for them, at the moment of realisation, the product of a great many previous expenses; and to repay themselves they must realise, not an amount which may then have the same purchasing power as the sum expended at the moment of disbursement, but an amount absolutely the same. And this will especially be the case if the capital required has been obtained on credit. Had it been his own capital only which the manufacturer or trader had used, he would merely have sustained a nominal loss on this capital; and even this he might have escaped by not entering upon such operations. But when business is carried on by the aid of borrowed capital, in whatever form, it is a very different thing. The borrower in this case has to support, besides the losses which the unequal movement of the fall of prices may perhaps inflict upon him, all the loss involved in the effect of the increased dearness of the monetary metal upon the burden of his debt.

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Now if we take into account the numerous forms under which these loans are carried on in commerce and industry, we shall find that the total amount must be immense. There are first the operations of credit properly so called; and there are besides those disguised loans which are included in all transactions not strictly for ready money. Then, as regards industry, it is often the case that the fixed capital of the undertaking has only been obtained by means of a loan. We have only to add the sums borrowed by joint-stock companies engaged in industry or commerce, the debentures and obligations of all sorts which have to be counted, and we arrive at a total really colossal. There are also an immense number of essentially similar loans which are made to private persons.

Consequently the increasing scarcity of gold cannot but have been an event really disastrous for commerce and industry. And it is quite natural that there has ensued what has been observed everywhere, a real slackening of commercial and industrial activity.

First of all, general production has suffered. This explains the fact that during the whole period of the appreciation of gold prices have indeed been low, but yet it has not been a period of real abundance.

And secondly, it is on the working classes especially that the state of things has weighed heavily, because for them the restriction of business means diminution of work and lowering of wages. But not only working men properly so called have thus felt the consequences of the monetary situation. It is clear from what I have just said that the whole industrial and commercial class has borne the weight of it.

But what we must especially observe in all this is that the question is not of losses sustained by some, and

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by which others have profited; for if such has partially been the case, it has not been the characteristic of the recent course of things. The principal result with which we have to do is the slackening of commercial and industrial activity, and the restriction of production. It is perfectly clear that from these there must follow a diminution of prosperity and of the general wellbeing.

As to the disturbance of financial contracts which resulted from the increasing scarcity of gold, this on the other hand merely causes a transfer of wealth. The loss of the debtors has become the gain of the creditors. Still, what happened here has not been without significance from the point of view of the general interest. For the creditors are for the most part the fund-holders and great capitalists. The debtors on the other hand are the workers of every sort. And whatever be the social utility of capital, and although it is undoubtedly necessary that private capital should be respected as one of the bases of society, it is certainly neither for the public interest nor fair that capital should be indirectly benefited to the detriment of labour.

There are still two special cases which call for notice here. I refer to land rents and the public debts. The appreciation of money augments the annual rent of the farmer to the profit of the landlord. Here is to be found in part the explanation of the fact that the agricultural class has been so especially affected by the recent monetary situation.

As to the question of the national debt, it will be sufficient, in order to appreciate its significance, to remember the important place which the service of the debt takes in the public expenses of almost every

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country, and the great importance of these expenses relatively to the distribution of the net produce of the annual production amongst the population.

But in all these questions of financial contracts there is one consideration which ought to occupy us even more than that of the different interests concerned. We have in fact to ask before anything else, What does justice demand?

Here I am entirely of the same opinion as M. Levasseur, when at the Paris Congress he said he could not approve of recourse being had to bimetallism as a means of procuring an alleviation of public debts.[1] But I hasten to add that, so far as I know, such a desire has never been expressed by any bimetallist.

What bimetallists ask is only that an end should be put to a monetary situation, which in a disguised way augments the burden of these debts. And if it is only just that the State, as M. Levasseur said, should not aspire to a result which would ruin its creditors, it is no less just that the State should not permit the continuance of a monetary system which for the benefit of its fund-holders ruins its taxpayers.

But M. Levasseur says further: "Since the ideal, which would be a standard absolutely invariable in its value, cannot be realised, let us allow the standard to vary in accordance with the natural laws of exchange, but do not let us advise the State to throw its sword into one of the scales of the balance." Similarly M. Passy, in speaking of the relation between creditors and debtors, said: "It is not the business of the law to favour either; it ought to make contracts respected and hold the balance equal between all."[2]

Now there is one thing I must ask, namely, how

[1] *Compte Rendu in Extenso*, p. 93. [2] *Ibid.*, p. 193.

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M. Levasseur and M. Passy, while using such a weapon against bimetallism, can at the same time approve of the conduct of the French Government in suspending the free mintage of silver. Has it not, in acting thus, thrown its sword into one of the scales of the balance?

It seems to me that it has certainly done so; and I have already said that in taking that measure at the time it did right. But let it continue to do now what it did then, that is, continue to act as circumstances show that it is necessary to act. And that is in fact what the demands of the bimetallists come to. They hold the standard of justice as high as any one else. But they do not think that it is contrary to justice for Government to go back upon a measure, when it no longer produces the results which one has a right to expect from it.

Now, in the present case the bimetallists say that the exclusion of silver from ranking as real money along with gold, and on a footing of perfect monetary equality, does a great wrong to a large number of individual interests as well as to the public prosperity in general; and consequently they demand the rehabilitation of that metal.

But here another question presents itself. Would the adoption of bimetallism replace everything in the state in which it was before the recent monetary events?

From what I have said before it will be seen that I for one think that it will not.

Bimetallism will put an end to the appreciation of gold, and by that will remedy the present state of things. It may, further, produce a certain reaction which will, however, very much depend on the circumstances of the moment. But there is no reason to

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expect that the result will be a complete reaction in prices, and all that such a reaction would involve.

And that it would not do this, certainly, is not a matter for regret. For, as the Report of the English Commission says, it would not be a reparation of the evil which has been done—or at least only to a very partial extent,—it would rather be a source of new evils. Still, even if there were reason to fear a very strong reaction, this would not be a sufficient cause for renouncing bimetallism. The chief thing is that the present situation should not be prolonged; for as long as it lasts we shall have the continuation and consequently the aggravation of all the evils which it has engendered, of all the wrongs which it has produced, all the miseries which it has caused. And—we must always return to this—it will mean the keeping up of that monetary dualism which in itself is a very real evil, and a serious obstacle to economic and social progress.

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CHAPTER VII

M. CERNUSCHI'S SUGGESTIONS FOR A BIMETALLIC AGREEMENT

I COME now to the proposition of M. Cernuschi concerning the method of applying the bimetallic system.

It amounts to this, that England, Germany, the United States, and France should simultaneously adopt one and the same monetary system, of which the unit should be—

The *Juste* in silver of the weight and fineness of the five-franc piece.

The *Juste* in gold of the weight and fineness of a United States gold dollar.

The first question to be considered is that of the ratio which would thus be established between the two metals. Now the true weight of the silver five-franc piece being 25 grammes, at the standard of $\frac{9}{10}$ fine, and that of the gold dollar 1·6718 at the same standard, the ratio between gold and silver would be that of 1 to 14·9538.

The difference between this and the old French legal ratio would, therefore, not be very great. At the same time the divergence would not be entirely unimportant, and there would be no motive for it.

If, in adopting bimetallism, we were to return to the

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old ratio, the 15½ of the monetary *régime* of France and the Latin Union, even those who did not approve our action would recognise that it was based on an intelligible principle. And in the same way we should be acting intelligibly if, when the agreement were concluded, we were to adhere to the existing ratio between the two metals in the open market, or to the average of that ratio during a certain period.

But what reason can there be in taking as the basis of the bimetallic monetary system the ratio of value which exists quite accidentally between the French five-franc piece and the American gold dollar? Evidently none, except that of borrowing the monetary unit partly from France and partly from the United States.

We might just as well take as monetary unit the *Juste* in gold of the weight and fineness of the gold five-franc piece; and the *Juste* in silver of the weight and fineness of a United States silver dollar; and this would even be in some respects preferable. The result of it would be a ratio of 1 to 16·57, which would give a partial satisfaction to those who desire a mean between the old French legal ratio and the recent market ratio.

For my part, however, I do not see the necessity of making such a concession to the antagonists of the 15½; and I have already shown why it is really not desirable to deviate ever so little from that ratio.

But I think that a deviation in the opposite direction would be quite as bad, and in some respects, I confess, still worse. It would be giving an extra value to silver for which there is no real reason.

But there is much more than the question of ratio in the proposition of M. Cernuschi.

If the international monetary union should be agreed upon on this basis, it would imply for France and the

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United States the partial recoinage of their money, and for England and Germany the recoinage of all their money. It would thus impose on all the contracting parties an enormous expense, and expense would be the least of the evils of this recoinage.

For France, for instance, this is the position which would be created.

Her silver money would remain as it is. But the standard weight of the gold money would have to be increased from 1·61290 gramme for every 5 francs to 1·67182 gramme, or, in fine gold, from 1·4516 gramme to 1·5046. This would in fact make it necessary to withdraw all the coined gold from circulation; whilst for every kilogramme of gold thus obtained, and costing 3100 francs of the old money, plus the loss upon the gold in consequence of the wear of the coin, there would only be reminted an amount of *Justes* equivalent to 2990·75 francs of the old silver money.

These *Justes*, however, would not, of course, make 2990·75 francs in gold, but 598·15 *Justes*. But what would be the ratio between the new money and the old, between the *Juste* and the five francs before the recoinage? Would it still be the piece of five francs in silver—the new silver *Juste*—which would have to be paid to settle an old debt of five francs, from which it would also result that it would require 620 *Justes* in gold to pay an old debt of 3100 francs? In this case the State would have to bear the loss of the recoinage of the gold, a loss of 109·25 francs on 3100 francs; and, what is far more serious, all old contracts would undergo a proportionate alteration. Evidently this could not be the solution. But it would have to be, on the contrary, that an old debt of five francs would no longer entitle the creditor to the old silver piece of

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five francs—which indeed would be only fair, since at present it is on the value of gold that the value of French money depends.

These, then, would be the consequences of the monetary reform. First, that in spite of the silver coin having remained the same, the old monetary unit would no longer hold good, and all the contracts expressed in francs would have, when due, to be paid in new money according to the value of the new money in terms of the old; for example, the old piece of five francs in silver would be enough to liquidate a debt of 5·18 francs. Secondly, the holders of silver money would profit by the increased value of that money.

In England and in Germany the position would be less complicated. But the recoinage of the whole money of the country would be imposed as an absolute necessity upon both these States. At the same time they would have to make the sacrifice of their existing monetary unit as their money of account. Besides, in the case of England, the recoinage of her money under the desired conditions would also involve the alteration of its standard of fineness.

The mere annoyance and confusion which would flow from this measure are enough to make it incredible that it could obtain the consent of the Governments concerned. And so much the more that it would not be a case only of temporary annoyances, but that these would continue to make themselves felt for a long time to come.

At present there are between the gold coins of England, Germany, and the United States the following differences:—

England: 1 sovereign = 7·32238 grammes fine gold.
Germany: 20 marks = 7·168455 ,, ,,
United States: 5 dollars = 7·5232 ,, ,,

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These differences are so important that it is not possible to pass them over, and to establish simple proportions of value between the old monetary unit of these two countries and the new international unit. Consequently there would be long calculations to be made at every liquidation of old contracts and accounts.

From all this there is, in my opinion, one conclusion only to be drawn: namely, that the mode of application of bimetallism which M. Cernuschi proposes would create great difficulties in putting the system in practice. And it is important to observe that this would be so for two reasons: in consequence of the ratio of value between gold and silver which would result from it, and in consequence of the complications occasioned by the method of procedure.

Besides, I have as yet named only the principal difficulties which would have to be taken into account. There would be others besides. But these difficulties would be of a different order, and are such as would always be met with if the agreement to be concluded was to have for its aim the constitution of a monetary union similar to the Latin Union, instead of being confined to an understanding on the subject of the identity of the monetary standard. Yet this latter is the only thing necessary for putting the bimetallic system into practice.

This is a point which we cannot insist upon too strongly. How many times have we not heard bimetallism combated for reasons drawn from experience of the difficulties to which the Latin Union has given rise. Now all these difficulties have arisen solely because there is a unity of coins between the contracting parties of the union, and in consequence the coins of the different countries have been able to pass their respective frontiers, not merely to serve as payment,

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but to enter into the circulation of the country which has imported them. And if there is a unity of coins between different countries, instead of merely an identity of monetary standard, there must also be agreement concerning many more details than in the contrary case. It was precisely in this settlement of the details of the monetary organisation that the signatories of the Second Part of the Report of the Gold and Silver Commission saw another obstacle to the conclusion of an international arrangement.

It is incontestable that the more the different Governments can be left a free hand in regard to the details of the monetary organisation of their respective countries, the better it will be. Now the understanding on the subject of the bimetallic standard will in no way require that everything connected with money should be regulated and agreed on by the different contracting parties. It will be enough if an agreement is made on the subject of the legal ratio to be established between the two metals, and concerning the measures to be taken in order to ensure their free and unlimited mintage, or else—which would produce the same effect—concerning their acceptance in any amounts by the Treasury or Bank of the country at the legal rate of currency.

M. Cernuschi himself submitted to the Monetary Congress of Paris a draft of a bimetallic convention,[1] which I permit myself to set against the proposition contained in the conditions of his competition.

There are in this draft convention some stipulations which it would perhaps be well to modify or draw up somewhat differently; but so far as regards the essentials of the convention and its scope, I do not think there is

[1] See the *Compte Rendu in Extenso*, p. 137.

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anything to find fault with. For my part I fully assent to it. But, I repeat, I do so while making a marked distinction between this draft convention and the scheme suggested in the conditions of the competition.

I would make, however, one or two exceptions. M. Cernuschi has on both occasions named only England, Germany, the United States of America, and France as the parties contracting or concluding the desired agreement. Now it seems to me that it would be desirable that on the contrary the understanding should be, from the first, as general as possible. Italy, Belgium, and Holland ought certainly also to take part in it. The adhesion of Spain and Portugal would be desirable, and also that of Austria and Russia, though in the case of these two States it could only at present be given conditionally. Lastly, I do not see why the Empire of British India should not also be called upon to take part in the bimetallic union.

My second observation concerns the last clause of M. Cernuschi's draft convention. According to what is there said, any of the contracting parties might leave the convention at the end of each successive period of ten years. And it appears that, according to the intention of the author of the draft, the convention would then be broken up. I do not at all consider that it would be necessary to make a general rupture of the convention thus dependent on the will of a single one of the contracting parties; and it certainly ought not to be so prescribed, in case there should be, as seems preferable, a larger number of parties to the understanding. It would be desirable to use every means in our power to give a character of stability to the convention.

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CHAPTER VIII

REMEDIES OTHER THAN THE ADOPTION OF BIMETALLISM—CONCLUSION

THERE is one more aspect of the monetary problem which I cannot pass over in silence.

What will happen if it continues to be impossible to establish the international agreement which is necessary for the adoption of bimetallism? Such is the question which must occur to us, unwilling as we may be to consider it.

Though it may be impossible to find a definite answer, it seems to me useful to turn our attention to the prospects which present themselves.

At the Paris Monetary Congress several speakers, and especially M. Coste and M. Levasseur, pronounced for the *status quo*, but on condition that it should be definitely established; that is to say, these speakers desired that France should keep to gold as the only coin having full legal tender power, whilst silver coin should be reduced to the function of subsidiary money, its power of legal tender being limited to an amount which might be 500 francs, or something more, but which at all events should remain below 1000 francs.

And M. Coste added expressly that he should not consider this settlement of the monetary problem as applicable only to a part of Europe, but as capable of

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being generally adopted in Europe and America and introduced in India; and it would then probably create, he said, in each particular country, national demands for silver which would suffice to maintain the value of that metal.[1]

In calling this solution "the maintenance of the *status quo*," I have only done so in order to use the terms of the speakers themselves. But I do not in the least admit that if this proposal were adopted we should be maintaining the *status quo*.

It is one of the distinctive features of the present state of things that in the principal European countries and in the United States of America, silver money of full legal tender power makes about a fourth part of the monetary circulation taken as a whole. Now if this unsatisfactory money—unsatisfactory only because of the position assigned to it by legislation—has been able hitherto to continue to hold this place in the circulation, it is solely because it has not been deprived of legal tender power. But directly that is done it will be thrown out of circulation in milliards. Thus, to begin with, the banks will not any longer be able to use it as metallic reserve against their notes and other engagements. The Bank of France in particular would be in a fine position, with 1200 millions of coin which would not be legal tender except for payments of less than 1000 francs!

It was not then the *status quo* which M. Coste was proposing; and it is impossible that the consequences of the measure which he asks for should answer to his expectation.

There is one point, however, on which I am quite of his opinion, as I have indeed said before; namely, that

[1] *Compte Rendu in Extenso*, p. 65.

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there is ample, and very ample, room in the circulation of the commercial world, first in Europe, and still more elsewhere, for silver money. But it is on condition that it is placed on an equality with gold money.

To desire on the contrary to reduce silver money to the part of subsidiary money, is to give an impulse—whether we wish it or no—to the continuance of the demonetisation of the white metal. And let it be well understood, if Europe should again begin the demonetisation of silver, we should have to fear that the fall of silver relatively to gold would also begin again, and at a greater rate. Now the greater the difference became between the market ratio of the two metals and the old legal ratio, the less would it be possible to preserve for silver money any important place in the circulation.

It is therefore idle to say, as M. Levasseur did at the Paris Congress, that there is no intention of keeping silver out of the circulation;[1] it is in vain for him to defend himself, as he and M. Coste did, against the charge of being a gold monometallist; the solution of the monetary problem which these speakers proposed inevitably leads to gold monometallism, at least it would certainly do so if it were generally adopted.

Must we then resign ourselves to remaining in the real *status quo*? Shall we, that is to say, allow the present state of things to go on? France, above all, is she willing to keep indefinitely in her monetary circulation some milliards of *assignats métalliques*, as M. Cernuschi has so aptly called its present silver money?

It seems to me that it would be uncomplimentary to men like M. Levasseur, M. Coste, and all those who at the Paris Congress expressed the same views, to suppose for a moment that they could regard the present

[1] *Compte Rendu in Extenso*, p. 103.

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state of things otherwise than as a state of transition. And indeed the proposition of which I have just spoken proves clearly that this is so. How, indeed, could they take any other view? Who does not see that the fiduciary money which Europe and the United States are making use of at the present time offends against all the rules of theory, and constitutes in practice a real danger for the countries which use it?

For the countries which belong to the Latin Union, the situation presents further complications, peculiar to themselves. Thus we have lately seen a Commission of men of business demanding of the Belgian Government that it should at last take up seriously the question of the demonetisation of the silver money of the country.[1]

It is unfortunately only too true that sooner or later the demonetisation of silver will become a necessity to countries which are in the position of the countries of the Latin Union, if they are only willing to treat gold as standard money properly so called. Yet this is not what is desired; it is quite understood that gold-monometallism would be contrary to all economic interests. But the fact is that the first demonetisation of silver, and the rupture of the bond between the two precious metals which has resulted from it, have driven Europe into a corner, and only bimetallism can get her out of it.

We begin, however, to see a chance of a certain rehabilitation of silver apart from bimetallism. We do not know as yet at the present moment whether there is a real probability of its taking place, but the thing is sufficiently serious to engage our notice. I am alluding particularly to the proposals which are now[2] under consideration in the United States, with the object of

[1] See the *Rapport du Comité d'Etude de la Question Monétaire en Belgique.* Antwerp, 1890.

[2] [April 1890.—Tr.]

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augmenting the use of silver in the monetary circulation of the country.

Will these proposals come to anything? The American newspapers tell us that we may depend that in one way or another something will be done in that direction.

What appears certain, at all events, is that for the present there is no longer any intention of suspending the coinage of silver. Speaking of this, one cannot help observing that the European States have placed themselves in a very singular position by their refusal to take part in international negotiations for the solution of the monetary question. During these latter years, the United States have absorbed a quarter of the annual production of silver for their monetary circulation; now, it is proposed to double that amount. But only yesterday some persons were proposing on the contrary to entirely suspend the coinage of that metal, and to-morrow perhaps they will again revert to a similar proposal. Now every decision on this subject is of immense importance to the whole commercial world, and to the private interests of a great number of States; and yet Europe allows the United States to act as they please. And it is not because it is obliged to resign itself to let the Government of the United States have its own way in the matter. On the contrary, the latter desires nothing more than to come to an understanding with the principal European States, in order to act in common accord with them. Its hesitation on the point of the decision to be taken is the direct result of the isolation in which Europe leaves it to decide the question, in the midst of the difficulties which present themselves on all sides. But, once more, Europe lets things take their course; she looks on with folded arms and tamely waits for the American Government to take measures

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which may in some small degree remedy the faults of the general situation, or others which may aggravate it still more.

Above all, we must wonder, I think, at the decision of the British Government in all this. For it is really with England that it lies to change the aspect of affairs; and at the same time it is the interests of the British kingdom and of its Indian Empire which are at stake, more than those of any other country. The Ministers of the kingdom are fully persuaded of the importance of every measure which may be taken under existing circumstances, and yet they are looking on, mere spectators of events.

The question of the chances of the partial rehabilitation of silver under the influence of the measures at present proposed in the United States has, however, another side.

We have reason to ask whether this rehabilitation would be really an advantageous thing; and I consider that there is serious reason to doubt it, because it is clear that the monetary situation which would ensue from it for the United States themselves could not last.

As fast as silver money increased in the circulation of the country, so fast the moment would approach when a decision would have to be taken regarding the definite place to be assigned to it. Now, for the present at least, it is not at all certain that the Government of the United States will let things go so far as to permit the replacement of gold as the real standard money of the country by silver. As long then as Europe does not definitely decide to lend its co-operation for the permanent rehabilitation of silver by means of bimetallism, we shall be perpetually threatened with a new mone-

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tary revolution—more formidable in proportion as the recovery in the price of silver in comparison with gold shall have become more considerable.

In fact, the execution of the new American proposals would have no other result with regard to the monetary situation than to continue the uncertainty and latent depression of recent times, and to increase the danger that a fresh crisis may arise which would be more serious than ever. And could we even feel assured that the United States would pass to the system of the silver standard, rather than themselves follow the example of Europe by rejecting this metal, we should have here a very imperfect compensation for Europe in having to do without the bimetallic monetary system. No end would thus be put to monetary dualism. On the contrary, Europe would see an increasing number of trading countries with whom she would have no monetary link. This link would then be broken between her and America also, and probably between her and both Americas.

Nor would Europe have made any counter-balancing gains on another side—in respect, that is to say, of those sacrifices which the introduction of bimetallism might involve, and which its opponents are now unwilling to make. For if the United States frankly adopt the silver standard, the redistribution of the two precious metals in the commercial world will very certainly again undergo such a modification that the result will be a return to the old ratio of value with all the reaction of prices which will follow, without, however, the certainty of the stability of this ratio. Europe will, it is true, have gained one single thing by leaving events to develop in this way in spite of her, namely, the preservation of her monetary independence. But it is a poor inde-

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pendence which she will have got by it, since she will have become the sport of circumstances in place of being their master.

There is, lastly, a third solution of the monetary problem on which a few words must be said.

It is a thing which we have already touched upon in the course of this essay, but to which we must return here—I mean the replacement of coin as a medium of exchange in the commercial transactions of gold standard countries by an extension of the instruments of credit. Let us note, first, that all that could be effected in this way would be to neutralise the harm produced by the scarcity of gold in these countries, and it could never be more than a partial solution of the problem. It would leave untouched the difficulty of monetary dualism.

It is very true that this remedy is extolled by practical men, yet I consider that we can only see in it the result of a singular aberration on the subject of the true nature of money. A remarkable instance of such aberration was given lately by an Anglo-Indian author, Mr. H. Bull,[1] who, by an extraordinary mental process, has been able entirely to detach in his arguments the pound sterling from the monetary metal. Needless to add, that the value of his ideal pound sterling has no real basis. It ends by being something altogether fanciful. Here and there, however, his meditations recall to memory the old project of monetary organisation of Mr. Archibald Alison.[2] The essay of this well-known and

[1] H. Bull, *A Revised Currency System.* London, 1887; and *The Currency Problem and its Solution.* London, 1889.

[2] Archibald Alison, *England in 1815 and 1845; or, a Sufficient and a Contracted Currency.* Edinburgh and London, 1845.

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highly-esteemed author deserves to be read again at the present day for his explanation of the disadvantages of the restriction of the monetary circulation; but he, too, sought a remedy in a money which would have but an imaginary connection with the reality of things.

And is it not in some degree on similar ground that a man so eminent as Sir T. H. Farrer has gone astray in his essay, *What do we Pay with?*[1] Taking his stand on the well-known theories of Mr. Macleod, he constructs a system of credit which would really be very dangerous; and this is because he too, in speaking of money, separates the use made of it from its intrinsic value. Now, as Professor Nasse pointed out in his first letter to Sir T. H. Farrer, metallic money is not credit, but is really itself a commodity.

Every system of credit rests upon the economy of cash as a medium of exchange; but this economy can never go so far as to do without cash as the basis of the system. In crossing a long space by railway we bear less upon the ground than in going on foot; but we must have the ground all the same in order to go over the space—we cannot simply fly. If we try to accomplish our progress in this way we shall fall heavily to the ground. Let us be careful not to attempt in the same manner to soar into the air in our commercial and financial transactions; if a solid support is wanting we shall not go the faster—we shall not go at all.

[1] *What do we Pay with? or, Gold, Credit, and Prices*, by Sir T. H. Farrer, Bart. [including Correspondence with Professor Erwin Nasse of Bonn on the same subject]. Cassell & Co., 1889.

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CONCLUSION

I am at the end of my essay, and my conclusion is this, that not only is bimetallism the best solution of the monetary problem, but that there is nothing else which is a real solution. And yet we do not see that the cause of bimetallism is near its triumph. This is not very consolatory.

Let us bear in mind, however, to keep up our courage, that this is not the first occasion on which it has taken time for truth to make its way in practical political economy.

When Cobden began his campaign in favour of the suppression of the Corn Laws, an English statesman said to him that it would be easier to suppress the British Constitution itself than to meddle with these laws; and yet Cobden attained his end, and in Parliament itself the Prime Minister rendered homage to his perseverance.

Let us have good hope, then, that bimetallism too will make its way in the end; and let us trust that M. Cernuschi and his friends in England who have put themselves at the head of the movement may also have their day of triumph.

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APPENDIX

SINCE the time when, seven months ago,[1] I finished the foregoing essay, several events have occurred of the greatest importance with regard to the monetary question. It seems to me that in laying my work before the public it is well not to pass over these events in silence, but on the contrary to call attention to the observations which they suggest and the lessons which may be drawn from them.

In the first place, in the month of April last we knew only the first proposals on the subject of the revision of the legislation of the United States concerning the mintage of silver. Since then these proposals have resulted, after many amendments, in the Act of the 14th of July 1890. In consequence of this Act the monetary situation has experienced a more considerable modification than appeared probable at the time I wrote.

In the month of April the question was exclusively, or almost exclusively, confined to the Bill brought in by the Minister of Finance, Mr. Windom. According to this Bill a certain extension would have been given to the use of silver in the circulation of the country, but that only conditionally. The thing would have been done in such a way that there could not have resulted from it any increase in the circulation calculated to interfere with the maintenance of the national money

[1] [The Preface and this Appendix were written in Nov. 1890.—Tr.]

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at its par value in gold. And in so far as this would not have been possible, the law would in fact have remained inoperative. For this is in fact the drift of the sub-clause, by which it was stipulated that the notes issued against a deposit of silver should be exchangeable not solely in coin having full legal tender power, but, further (and this at the will of Government), against silver bullion.

This clause, however, was not to the taste of the extreme left of the silver party. This side went so far as to oppose to it a proposal tending to re-establish, at least in principle, the free mintage of silver. It would even have resulted from the amendment to that effect which was presented, that from the moment in which the white metal had returned to a price in gold equal to its nominal money value, free mintage would have been *ipso facto* granted, whatever had been the consequences.

The Government, however, declined to push things so far. It has been said, and it appears certain, that if Congress had carried the proposal the President would have opposed his veto to the law. The Minister of Finance, Mr. Windom, and the members of Congress who more or less share his opinion, have had in view in the whole of this affair two things: first, to remedy as far as was possible in the actual monetary situation the scarcity of coin which has prevailed in all gold standard countries, owing to the demonetisation of silver in Europe; and next, to pave the way to a full and complete rehabilitation of silver by the international adoption of the bimetallic standard. But they were desirous to protect the United States from the risk, to which the steps necessary to such an end might expose them, of insensibly passing from gold to silver as the real standard of the country.

The antagonism of the two parties occasioned long

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debates both in the House of Representatives and in the Senate, as well as numerous conferences between the delegates of the two sections of the legislative body and the Government; and a compromise at last resulted.

Every stipulation relating to the re-establishment of the free mintage of silver was struck out; but, on the other hand, the Minister gave up the optional repayment in uncoined silver of the notes to be issued, and also consented to fix the amount of silver to be bought monthly by the Treasury at 4½ million ounces.

In virtue then of this law the Government of the United States will for the future purchase 4½ million ounces of silver a month (as long as the price does not exceed 1 dollar for 371·25 grains of pure silver), and will issue in payment of these purchases notes which will have full legal tender power.

At the price of 1 dollar for 371·25 grains of pure silver, the Treasury would have to issue an amount of about 70 millions of dollars in notes annually.

As I have just said, the monetary situation is considerably modified in consequence of this new legislative measure on the part of the United States; and this in two ways. First, as regards the scarcity of cash in countries with a gold standard; secondly, as regards the relative value of the two precious metals.

So far as the effect of this Act upon the scarcity of cash in gold standard countries is concerned, the situation is as follows: The production of gold has been latterly about 160,000 kilogrammes a year. But the industrial employment of this metal absorbs annually an amount which, according to the calculations of the best statisticians, should be computed at 100,000 or 110,000 kilogrammes. Besides this there is the exportation of the metal to the East, which, according to

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Dr. Soetbeer, requires at least 30,000 kilogrammes, taking one year with another. There remain disposable 20,000 or 30,000 kilogrammes. Now if there were only to set against this the ordinary money requirements of the gold standard countries properly so called, *i.e.* the requirements regularly arising out of the necessity of maintaining the circulation in these countries at its existing level relatively to other commodities and to commercial activity, this amount of 20,000 or 30,000 kilogrammes could hardly be considered sufficient. When one thinks how continually the population is increasing even in the old countries, and especially how considerable this increase is in countries relatively new, such as the United States, and how much in consequence the volume of trade constantly tends to develop, it cannot be doubted that there is a permanent need for a large increase in the circulation, notwithstanding that the development of the system of credit does something to meet these new requirements.

And these are not by any means the only requirements which have to be taken into account. There are besides new demands for gold which come from other countries than those which we have named. Thus of late years demands have come especially from Southern Africa and South America.

We find that the net exportation of gold from England alone has been—

	1888.	1889.
To British India . .	£371,882	£1,349,089
To Southern Africa . .	1,420,394	2,390,680
To South America . .	8,620,645	3,358,953
Total .	£10,412,921	£7,098,722

averaging in these two years about . . £8,750,000
or in kilogrammes about 64,000

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The annual production of gold, as we have said, has lately been about 160,000 kilogrammes, and the industrial employment from 100,000 to 110,000.

Adding to this latter amount only the exportation from England to the above countries, we find that, counting these two items alone, the production of gold, far from leaving a fairly considerable balance to meet the regular requirements of the circulation in the gold standard countries of Europe and in the United States, has, on the contrary, left a deficit.

In these circumstances it has been a fact of the greatest importance, and one may confidently add, for the commercial world in general and Europe in particular, a real benefit, that since 1878 the United States have made room in their circulation for a sum of white metal amounting to from 27 to 33 millions of dollars nominal annually. A corresponding diminution in the demand for yellow metal has been the result. To Europe that has been equivalent to an augmentation of the production of gold to the same amount. And, indeed, one knows not what would have been the consequence of the monetary situation in the gold standard countries, if the United States had not in this manner remedied the insufficiency of the production of gold relatively to the demand for it.

What the United States have done since 1878 for an amount of, say, 30 millions of dollars a year, they will do now for an amount of 60 to 70 millions. If it is 70 millions, and the difference therefore one of 40 millions, it will be for the gold standard countries, taken generally, the same as if the production of gold were further increased by 60,000 kilogrammes. In proportion to the actual production this is enormous. Consequently, the present monetary situation will be sensibly improved.

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As to the influence of the Act upon the relative value of the two precious metals, the fact we have to look at is this: that the United States will henceforward absorb annually into the circulation 54 million ounces, or 1,679,600 kilogrammes, of pure silver, in place of about 770,000 kilogrammes, as they have hitherto done.

Now the supply and demand of the white metal have lately been balanced as follows:—

According to Dr. Soetbeer, the production in 1888 reached 3,637,000 kilogrammes, and according to the Director of the United States Mint, Mr. Leech, 3,918,600 kilogrammes should be reckoned for 1889. Say, in round numbers, 3,900,000. So much for the supply.

Now, as to the demand, we must first take into account the industrial employment, which, according to Dr. Soetbeer, should be valued at 500,000 kilogrammes.

Secondly, there is the absorption of metal into the currency of the United States, which, as we have said, was latterly to the amount of 770,000 kilogrammes.

Thirdly, there is the exportation to the East, to Africa and South America, and the absorption for currency purposes in Mexico. And, finally, there is the demand for coinage in the different European countries.

According to the commercial statistics of England, the export from that country in 1889 was—

To British India . . .	1,366,420 kilos.
To China . . .	74,075 „
To Japan . . .	171,038 „
And for South America, not including Brazil . . .	35,820 „
Total .	1,647,353 kilos.

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to which must be added the exports from San Francisco, to British India, China, and Japan . . 342,000 kilos.
Total exportation to the East (say) . 1,990,000 „

As to the exportation to Africa and the amount of the mintage for currency requirements in Mexico, it is difficult to give exact figures, but if we take it at 140,000 kilogrammes (it will be seen presently why I fix that sum) we shall not be exaggerating.

In the different countries of Europe, including for France her colonies, the mintage has risen (according to the annual reports of Sir Charles Fremantle, Deputy-Master of the English Mint) in 1888 to £5,599,248, and in 1889 (not counting Spain, from which returns were not then known) to £3,894,523. Taking the mean of these two years, we have, then, to reckon under this head for an absorption of at least 500,000 kilogrammes yearly.

To sum up :—	Kilos.	Kilos.
Amount produced . .	...	3,900,000
Industrial Employment .	500,000	
Mintage in the United States	770,000	
Exportation to the East, etc.	2,130,000	
Mintage in Europe . .	500,000	
Total, equal to that of the amount produced .	3,900,000	

Such was the state of things in regard to the supply and demand for silver before the revision of the monetary legislation of the United States.

The annual demand for the mintage of the said country is now increased at a stroke from 770,000 to 1,679,000 kilogrammes, say by 900,000 kilogrammes in round numbers.

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It is easy to understand that speculation, which always anticipates events and discounts them, and even sometimes exaggerates their probable effect, has found means to steadily raise the price of silver from 42 to 54 pence per oz. in the London market. And some have even said that the price would be carried to about 59 pence, that is to say, to the maximum which the American Government is allowed to pay.

For the present, however, this has not taken place. On the contrary, the rise has been promptly followed by a reaction, strongly marked from the first, and which soon under the influence of other events has brought the price of the metal back almost to the starting-point of the last rise.

It would seem, however, that we are not justified in attaching very great importance to such fluctuations, so far as the ultimate result we have in view is concerned. Even if it were certain that the purchases of the American Government must necessarily in the long run raise the price of silver to the extreme limit imposed by the law, yet in the meantime movements of reaction more or less decided would be likely to occur.

But it is quite another question whether the rise of price can be ultimately carried as far as has been said, and even whether the quotation touched at the outset can be re-established and maintained. On this subject almost all the data on which calculation might be based are uncertain.

There is first the amount of production. All the predictions on this point are guess-work; and I think, for my own part, that the probabilities are as much against any important increase as in its favour. At the same time, a certain increase in production in consequence of the great rise in price would be only natural.

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As to the industrial employment of the metal, there is no reason to expect any very strong influence from the rise in price. For industrial use silver can hardly be much replaced by other metals, unless gold is used, and in comparison with the value of gold a rise in the price of the white metal is not of much consequence.

The increase in the demand for currency purposes in the United States is a fact which does not admit of dispute. But it is not less certain that the more this demand raises the value of the metal, the more will the demand for exportation to the East diminish. The amount of this demand will always be affected by the value of the metal in terms of other commodities.

A curious calculation may be made on this subject. The United States are to buy silver to the amount of 54 million ounces a year, so long as the price shall not exceed 59 pence; and that makes, as we have said, an increase of 900,000 kilogrammes on previous purchases of the same nature. At the price of 59 pence the rise would be about 40 per cent above the lowest price at which the metal has been quoted of late years. Suppose now, that the East should continue to absorb silver to the same value in gold as it has lately done, and that the price of silver should really rise to 59 pence; then the quantity of kilogrammes exported to the East would be diminished in exact proportion to the rise in price, *i.e.* by 40 per cent. Now, 40 per cent on 2,130,000 kilogrammes makes 850,000 kilogrammes, a figure about equal to that of the increase of the demand on the part of the United States. Thus the interrupted equilibrium would be restored.

I give this calculation for what it is worth, that is, merely as a curiosity. For there is no reason to believe that the exportation of silver to the East will continue,

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notwithstanding the rise in price, to be as considerable as heretofore, measured by its value in gold. I think, rather, as I have said in my essay,[1] that although there is no reason to expect that in consequence of the rise of price the exportation of silver to the East should give place to a contrary movement, it will undergo, at least temporarily, a very sensible diminution. We may remark, however, on this point, that at first starting the rise of the price of silver has not had this effect.[2] But it would be hazardous, as it seems to me, to draw any conclusion from this first movement of exportation. The causes which should have produced a decline of export have been provisionally counterbalanced by others; and, in fact, just lately the state of things has undergone a sudden change, the export to British India having actually ceased altogether for several weeks.

In the last place, we must consider the demand for silver for the monetary requirements of Europe. But on this subject we can only say that everything is uncertain. Everything will depend on the monetary policy which Europe may adopt in consequence of the new American legislation. It may very likely be that the triumph of bimetallism will be furthered by it. For my part, I think there are good reasons for expecting this. I share in this the opinion of Mr. Robert Barclay, and not that of M. Emile de Laveleye.[3] However, this is a point on which I will explain myself farther on.

[1] Pp. 54, 90.

[2] The export of silver from England to British India was, during the first eight months of 1890, £6,324,209, against £5,282,547 during the same period in 1889. Therefore, even after making allowance for the increased value of the metal in pounds sterling, there is not a trace of diminution in the movement of exportation during this period.

[3] See Robert Barclay, *The Silver Question and the Gold Question*, 3d edition, pp. 134, 135; and Emile de Laveleye, *La Belgique et le Silver Bill*, *Moniteur des Intérêts Matériels*, 24th August 1890.

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It is possible that, in the expectation of such a result, the coinage of silver in Europe may continue the same as it has lately been, and that further demonetisation may be avoided. But it is just as likely that the coinage may be contracted, and the demonetisation of silver begin afresh. And it is this certainly which we must expect if the Governments which have hitherto opposed the international adoption of the bimetallic standard do not give indubitable evidence of being disposed to put an end to their opposition.

To sum up, I say then that for the present any prediction on the subject of the price of the white metal appears to me hazardous, since the course of events must depend on several circumstances on which there is very little to be said at present.

Still, all things considered, I am led to think that the first rise in the gold price of silver occasioned by the new monetary legislation in the United States was exaggerated rather than insufficient. What must be kept in view is that the new demand for silver, which is the consequence of that legislation, is indeed of great importance in comparison with the amount of the annual production of the precious metals; but that before the ratio of value between the two metals can be modified, it is necessary that the whole mass of those metals which compose the monetary circulation should feel the influence of the immediate cause of the movement. Now the event of which we speak is not in itself of such a nature as to occasion suddenly so considerable a modification of the ratio as that which has occurred. And, though it is true that already before that event silver had a tendency to rise in value relatively to gold, in consequence of an increase of the demand for the former in the East (a fact which, perhaps, better than

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any other explains why the rise was at first so decided), it is equally true that a sharp rise is the very thing to check such an increased demand.

To sustain the recovery which has taken place in the price of silver relatively to gold, and especially to push it farther still, it seems that we should require a real modification in the distribution of the two metals in the commercial world; as yet we have not got so far as this.

This, however, is very likely to be the result in the long run of the new monetary law of the United States.

But this leads us to turn our attention to another side of the question, namely, to the influence which the above law is to exercise on the monetary situation of that country itself. And on this question hangs another. It is especially necessary to inquire whether in consequence of this law the adoption of international bimetallism ought still to be regarded as the only solution of the monetary problem which is really satisfactory, or whether we are now confronted with new prospects which may render this solution less necessary.

I am myself absolutely convinced that there is no reason for renouncing international bimetallism, and I shall presently say why. But let us begin by clearing up the first point. We shall at the same time be laying the foundation of the argument which is necessary in order to explain the question of the solution of the monetary problem in view of the situation as it stands.

What we must ask before anything else is what effect the absorption of 70 millions of silver dollars into the monetary circulation of the United States will produce upon the currency as a whole.

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Statistics dealing with the currency of the United States are not wanting. But we must be cautious in using them. They give us in general rough totals, in which the same element is often twice counted. Here is the *résumé* of a calculation which I have made concerning the circulation at 31st December 1889.[1] I find that it was then composed, in round numbers, as follows:—

Uncovered Paper Currency . .	$257,900,000
Paper issued against metal, and Coin in Circulation, viz.—	
Gold Coin and Reserve . .	610,170,000
Silver Coin and Reserve .	360,530,000
Subsidiary Coinage . .	76,700,000
Total .	$1,305,300,000

Such is then the net total which we must reckon. But we have not simply to ask to what amount the gold in circulation might be replaced by silver without ceasing to be the true regulating standard of the monetary circulation. We must also take into account the regular increase of the monetary circulation. Now, by applying a calculation more or less analogous to that of which I have just given the results to the whole of the different elements of the monetary circulation in 1873, we find that on the 30th June of that year the net total was $642,500,000.[2]

The currency has thus in sixteen years and a half experienced an increase of $662,800,000, say about $40,200,000 average increase per annum.

Let us suppose now that it should continue to increase by the same amount annually, say in round

[1] For the details of this calculation see note A, p. 149.

[2] See below, note B, p. 152.

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numbers $40,000,000, and that the uncovered paper circulation should remain at its present amount. The following would then be, after five years, the combined result of this increase and of the annual absorption of 70 millions of silver money.

Total of the monetary circulation after five years :— $1,305,300,000 + 5 × 40,000,000 = $1,505,300,000, of which—

Uncovered Paper Currency		$257,900,000
Subsidiary Coinage		76,700,000
Paper issued against metal, and Coin in Circulation, viz.—		
Silver—		
Present Stock	$360,530,000	
Add 5 × 70,000,000 or	350,000,000	
		710,530,000
Leaving in Gold		460,170,000
Total		$1,505,300,000

At this rate at the end of five years the proportion in which the two metals at present enter into the monetary circulation would therefore already have undergone a very important modification ; and one may confidently say that silver would then have replaced gold to the utmost limit compatible with the existing state of things.

I am well aware that there is one uncertain element in my calculation—the amount which I have adopted for the annual increase of the circulation. Opinions may differ on this subject, and my figure be thought insufficient. Some perhaps will even say that geometrical progression should be applied rather than arithmetical. I do not deny that there may be

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objections to my method. But I venture to doubt if these objections can hold good in the end,—and this for a very good reason, namely, that if the United States annually increase their metallic circulation by 40 millions of dollars they are forestalling already the greater part of the monetary metal which is available for all the gold standard countries put together. From which it follows that even if they should feel the need of augmenting their metallic circulation in a larger proportion, they would not find the means of doing so; unless of course they chose to take still more of the silver and pass on *per contra* the gold to other countries. But in this case again their monetary position, as regards the proportion in which the two metals enter into the currency, would not be improved.

In whatever way then I look at the subject I come to this conclusion, that the United States cannot for any great length of time continue to absorb an amount of 70 millions of dollars or more in silver as monetary metal, without touching the limit at which gold can no longer be the money regulating the value of the dollar. Before this point is blindly reached the country must make its choice, and either frankly adopt the white metal as its monetary standard or else discontinue its purchases of silver.

In the first case the American monetary law of the 14th July last would in fact result in that redistribution of the two metals in the commercial world of which we have already spoken; and then without any doubt there would follow a return to a relation of value between the two metals more or less closely approaching the old relation before 1873, which would be durable.

In the second case, on the contrary, all the ground

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regained by silver would be lost anew, and the rise in price relatively to gold, with all the disturbances which it has already occasioned (and which it will continue to occasion), would once more give place to a new fall with fresh disturbances; and so we should fall back more than ever into the situation of depression, uneasiness, and uncertainty which followed the monetary revolution of 1873.

It depends on Europe, and especially on England, to prevent this. All may be well if they will rally to international bimetallism, taking up with common accord and right methods the work of the rehabilitation of silver, begun, it must be allowed, in a very imperfect manner (but whose was the fault?) by the United States.

And why should this not be? why should England still continue her opposition? At the time of the discussion in Parliament last April, Mr. Goschen said that he thought the proposal of a monetary conference in any case premature; one would think that this objection can hardly be repeated now. But besides it seemed to him scarcely fair that the British Government, which has taken no active part in the measures which have led to the fall in the price of silver, should lend its active concurrence to measures intended to raise the price of this metal. And I think I am not wrong in saying that this is the chief objection of the English Minister to the participation of his Government in a bimetallic union. And yet it is not now a case of starting the rehabilitation of white metal and replacing it at its former value relatively to gold, but merely of consolidating and completing the reaction which has taken place already, and in which again the British Government has had no share. And if the British

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Government should refuse now to combine with other commercial countries to attain this end, it will certainly be upon it that the responsibility will rest if another fall in silver be the result.

Or could the reason of such a refusal now be that the co-operation of England had become superfluous, and that the action of the United States, independently of the co-operation of Europe, would suffice to create a better situation?

To this I reply, in the first place, that in any case such an answer would only be justified if it were certain that the United States would rather pass to the simple silver standard than go back upon the last monetary law. Whatever be the probabilities on the subject, I consider that the matter is by no means settled. Political combinations have had something to do with the success of the law of the 14th July. But should the Government pass definitely into the hands of the Democrats, the situation might very likely be changed.

And, secondly, another thing must be kept in view, namely, that only the triumph of bimetallism can put a definite end to the possibility of fresh demonetisations of silver in Europe. The countries which are at present under the *régime* of the *étalon boiteux*[1] will not be able in the long run to abstain from such demonetisations, unless the two metals really again take rank in the monetary circulation on a footing of perfect equality. Whatever be the ratio of value between the two metals which results in the end from the monetary policy of the United States, so long as the commercial world is divided into two parts—countries with a gold

[1] That is to say, countries which, though using both gold and silver as unlimited legal tender money at a fixed ratio, have been obliged to restrict the mintage of silver; *e.g.* France.—Tr.

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standard and countries with a silver one—the maintenance of a large proportion of silver coin in countries where free coinage is only granted to gold would always be in theory a heresy and in practice a real danger.

Lastly, in the third place, I reply, and this especially is of very great importance, that nothing but international bimetallism can assure the stability of the ratio of value between the two metals, nor re-establish the unity of the money standard in the commercial world.

Indeed from this point of view, *i.e.* having regard to the unity of the monetary standard, I consider that if the United States should really adopt the silver standard it would be a new cause of embarrassment for Europe, and that its trade would sensibly suffer.

Besides this, for England, from the special point of view of the money market, it would be an extremely serious affair, and would result in very real damage. For unless England entirely recasts her banking system she will always find it absolutely essential from time to time to strengthen her metallic reserve by importing gold from abroad. And how could she be assured of being able to meet such requirements if the banks of France and Germany do not depart from their present line of conduct, and if along with this there be no fixity of exchange between London and New York; and if, further, it were impossible to be sure of obtaining gold for export in the United States even by making great sacrifices? For much gold would always remain there, even if it no longer formed a part of the currency properly so called; but it might be out of sight when it was wanted, and would certainly be at a premium if it were in request for exportation.

To conclude, then, I say that the late revision of the

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monetary legislation of the United States has not yet procured for us a solution of the monetary problem.

The only result has been a state of things which cannot last; it can only be a temporary solution of the question. And I add that, whatever may be the ulterior measures which the United States may take, no solution will ever be reached in this manner which will be nearly as satisfactory as that offered by the adoption of international bimetallism, and which bimetallism, and bimetallism only, can give.

At the same time we do owe something to the American monetary law of the 14th July last, namely, that at present the general adoption of the bimetallic standard would be considerably facilitated.

Let us hope that Europe will profit by the chance which thus presents itself. It is possible, however, that the partisans of bimetallism in Europe may come into collision with a new difficulty. It may be said that the moment could not be worse chosen to hold out the hand to the United States in view of an international monetary understanding. Is Europe, which for more than ten years has turned a deaf ear to the proposals made by the United States in this direction, suddenly to declare itself favourable to their realisation, now that America, by the M'Kinley tariff, has openly declared war against her from the point of view of international commercial interests? It would be absurd! As long at least as American commercial policy shall have as its basis "America for the Americans," any Americo-European monetary convention becomes an impossibility.

Well, I confess at first sight such an objection might really seem reasonable. But yet, if we look at it well, if we go deeply into the question, it will be found that it takes a different aspect.

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I will not ask whether Europe, which now complains of the adoption of the M'Kinley tariff, has nothing to reproach itself with on this point; if its refusal to co-operate with the United States to remedy the fall of prices which resulted from the dethronement of silver from its old place as a monetary metal, and the wrong thus done to the development of international trade, have not contributed to the triumph of the protectionist movement in America. Let us allow for the present that this has not been so. Yet there is really no reason to reply to the M'Kinley tariff by a suspension of negotiations on the subject of an international monetary convention. If Europe had to make a sacrifice in accepting such a convention, and especially if the sacrifice were to be to the advantage of the United States, it might be intelligible that at present a formal refusal should be opposed to all the overtures made from that side to conclude such a convention, or that, at least (and this would in any case be the better plan), the question of tariffs should be made inseparable from the monetary question.

But this is not the position.

The interest which Europe has in seeing bimetallism triumphant, and re-establishing the monetary unity of the commercial world by the international adoption of the bimetallic standard, is its own interest—its own, at least, as much as that of the United States; perhaps even more than that of America. For any decision that the United States may take on the subject of the monetary standard in the country itself is of the highest importance to Europe; and as long as there is not on this subject an agreement binding America as well as Europe, there will be a sword of Damocles suspended over the head of the commercial world, and

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the United States will hold the thread of it in their hands.

And let this be considered while there is yet time. To secure the success of the bimetallic system, America requires the co-operation of Europe; but, in the same way, Europe requires that of the United States. And who knows but that the moment may come when the United States, persisting in their present commercial policy, will consider that they derive greater advantage from dualism than from monetary unity; their country adopting the same standard as the wide East, and Europe alone remaining shut up within a circle of gold, and so exposed to the disadvantage of an uncertain exchange with all the rest of the commercial world.

Let Europe, then, in spite of the M'Kinley tariff, consider and act without longer delay.

There are besides, in recent events, other reasons for prompt action, quite apart from that (which need not detain us now) of the extreme instability of the ratio of value between the two precious metals, which is the result of the present situation. It is especially worth notice that in Russia and Austria-Hungary the question of returning to payments in specie has come to the front. And in both cases the gold standard is likely to be soon adopted, and for Austria-Hungary at least this may well become necessary, in consequence of the general state of things in Europe.

Now it is indubitable that if Austria-Hungary and Russia, or even the former alone, really decide on this action, the struggle for gold will begin again in Europe. I appeal on this question to an authority whose testimony in this matter no one will refuse—I mean Professor Lexis of Göttingen. It is well known that Professor Lexis, in spite of his bimetallic sym-

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pathies, does not entirely share the opinions of those who believe in an appreciation of gold. Yet all the same, in a quite recent article,[1] he has pronounced decidedly against those who declare that Austria could boldly return to payments in gold. On this subject he said, comparing the position of Austria with that of Italy in past times: "So much the less could it (Austria) venture to hope to maintain its new monetary system effective and intact in a serious international struggle for gold, *such as would not fail to ensue.*" And as to Russia, he has expressed the opinion that it would be simply impossible for her to procure gold sufficient for the circulation of the country.

I think for my part that in this M. Lexis is perfectly right. But it is no less true that in both countries illusions on this subject are cherished, and that the attempt to carry the proposed measure might easily become a reality.

Now this monetary reform in Austria would be a repetition of the German monetary reform on a smaller scale; and, like the German Empire, Austria would have to procure a certain amount of gold, and would have, on the other hand, silver to demonetise and sell. This would hold out to Europe the prospect of a return to the state of things which immediately succeeded 1873.

Russia, on her part, would probably only require to procure gold. We say she would not be able to find enough. But imagine all the mischief which would result merely from beginning to put such projects into execution!

[1] Conrad's *Jahrbücher* for September 16, 1890.—"Um so weniger würde es (Oesterreich) hoffen dürfen bei einem ernstlichen internationalen Kampfe um das Gold, *der nicht ausbleiben würde*, seine neue Währung effektiv und unversehrt zu erhalten."

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It lies solely with the other countries of Europe, England chiefly, and France and Germany as well, to prevent the commercial world from being again exposed to the renewal of all the evils and miseries which have characterised the period of the last sixteen or seventeen years. But what is necessary for this is that the European gold standard countries should take the initiative, and place themselves frankly at the head of the movement in favour of international bi-metallism.

And lastly, and above all, is there not an imperative motive for taking up without delay the solution of the monetary problem, by the adoption of international bimetallism, in the crisis to which the commercial world, and especially the London market, have quite recently found themselves exposed, and which it would perhaps be wise to regard as not yet entirely averted?

It is true the monetary situation has not been the cause of this crisis. For my part at least I am fully convinced that the cause lies much more in exaggerated speculations in various securities, and especially in important investments of capital in the Argentine Republic, in Uruguay, etc.—investments from which considerable losses have resulted, and besides—and it is this which for the moment has done immense mischief—withdrawals of capital, the want of which at a particular moment has been keenly felt.

But it would be puerile to deny that the monetary situation has done much to aggravate the crisis. For a long time past the need of strengthening the money market has been felt in London; and for some time before the recent events the Bank of England had been acting in the necessary direction with great energy. But it was in vain. The gold which it was desired to attract to the London market

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would not come. And in the end, when the danger became very pressing, it was necessary to have recourse to quite exceptional measures. These measures are honourable, it may be freely said, to all those who were concerned in them. The correctness of view and the energy of which the Governor and the Directors of the Bank of England gave proof, and also the energy and goodwill of the Bank of France, deserve the highest praise. But at the same time the measures taken are very significant of the faults of the present state of things.

It appears that the British Government is at present engaged upon measures to be proposed to Parliament, with a view to a reform in the banking system established by the Act of 1844. If I might venture an opinion on this subject, I should say that this is well, but that it is not enough. That the constitution of the Bank should be so modified as to give to the organisation of credit in England a little of that elasticity which we in the Netherlands, in France, and in Germany, owe to our Banks of issue, would certainly be a good thing. But it seems to me that the English habit of economising to the utmost extent the capital sunk in the form of cash is too inveterate for us to expect that any reform of the banking system will fundamentally change the state of things.

Thus one must never expect to find in England that abundance of perfectly free capital and of cash which is found in France, and which, I may here remark, is (at least in my personal opinion), far more than the difference in the monetary system, the reason why the French money market is a stranger, so to speak, to the embarrassments which from time to time make themselves felt in London.

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But this is an additional reason, as I have already said in my essay, for the interest which the London market has in a general monetary situation which would allow it to work with a small amount of metallic currency. And it is only the adoption of international bimetallism which can give rise to such a general monetary situation. Let us add that if, by some miracle, England were to make up her mind to work with a large margin of metallic currency, such as we find in France, it would be absolutely impossible for her to procure it in the present monetary situation. In whatever way, then, we look at the question, and on whatever special point of the present situation we insist, we have always to come back to the conclusion that the general interest compels us to decide on adopting internationally the double monetary standard—Bimetallism.

Not that there will be found in it a palladium against all evils, or even all economic evils. Nothing will be changed after all except the monetary situation. And general prosperity and a sound and strong commercial condition do not depend solely on the monetary situation. Yet whether this latter is good or bad can never certainly be a matter of indifference; and what is more, without a good monetary situation, the commercial situation can never be really satisfactory.

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NOTES TO APPENDIX

NOTE A

THE MONETARY CIRCULATION OF THE UNITED STATES 31ST DECEMBER 1889

WE know that there is no lack of official figures concerning the monetary circulation in the United States, and that in most of their details they are absolutely correct. This is the case with regard to the circulation of State notes, of bank notes, and also of the silver coin, which has never been exported. It is otherwise, however, with regard to the circulation of gold coin. The present director of the Mint, Mr. Leech, has had to acknowledge in his latest report [1] that serious doubts have been raised as to the correctness of the figures relating to this circulation. According to these figures, there would appear to have been in active circulation at 31st December 1889, over and above the reserve of the banks, an amount of $269,696,645 in gold coin. And as it is well known that in hardly any part of the United States is gold to be seen in use in everyday transactions, or at least only to a very slight extent, it is generally believed that there must have been withdrawals of gold specie from the circulation, either for industrial purposes or for exportation, which have not been taken into account.

According to a calculation which I have made, we should have to admit that the official valuation of the amount of gold in circulation is too high by about 80 millions at least.

In the calculation which follows, I have allowed myself consequently to credit the circulation with gold coin to a

[1] Report upon the production of the precious metals in the United States during the calendar year 1889.

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total of 80 millions less than the amount mentioned in the official statistics. But with this exception all the figures which I have used are borrowed from official documents.

Having said this, I append the results which I have obtained to this Appendix of my essay.

Here is first the enumeration of the different elements of which the circulation was composed at the date of 31st December 1889, whether to be found in active circulation or in the public treasury:—

		In Active Circulation.	Net Balance in Treasury.
GOLD—			
Total amount in Treasury	$313,818,942		
Gold certificates issued *per contra* . .		$122,985,889	
Net balance in Treasury . . .			$190,833,053
Gold coin, total amount estimated as in circulation . . .	$610,169,991		
From which deduct .	313,818,942		
Making part of the reserve of the National Banks		71,910,000	
Reserve of the other Banks . . .		34,000,000	
Balance estimated to be distributed in the country		190,441,049	
SILVER—			
Total amount of "standard dollars" in the Treasury	$288,535,500		
Monetary metal in Treasury	4,654,540		
Together .	$293,190,040		
Silver certificates issued *per contra* . .		282,949,073	
Net balance in Treasury . . .			10,240,967
Trade dollars in Treasury . . .			6,074,538
Total amount of standard dollars minted to date . . .	$349,802,001		
Deduct amount in Treasury	288,535,500		
Remains in circulation . . .		61,266,501	
SUBSIDIARY COINAGE—			
Total coined . . .	$76,699,216		
In Treasury . .	21,927,928		21,927,928
In circulation		54,771,288	
TOTAL COIN and BULLION, carried forward		$818,323,800	$229,076,486

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		In Active Circulation.	Net Balance in Treasury.
TOTAL COIN and BULLION, brought forward		$818,323,800	$229,076,486
BANK NOTES—			
Present total of notes	$197,078,918		
In Treasury	133,253		133,253
In circulation		196,945,665	
STATE NOTES—			
Total issued	$346,681,016		
In Treasury	6,673,925		6,673,925
In circulation		340,007,091	
Total		$1,355,276,556	$235,883,664
General Total		$1,591,160,220	

But in this enumeration are comprised the fiduciary circulation as well as its metallic covering, besides the State notes and bank notes which are in the Treasury. Here we have elements entering twice over, for which allowance must be made. Here, then, is, in the second place, the statement of the real situation :—

FIDUCIARY CIRCULATION (NET AMOUNT)—			
State notes		$340,007,091	
Bank notes		196,945,665	
Together		$536,952,756	
METALLIC RESERVE—			
Gold in Treasury	$190,833,053		
„ in National Banks	71,910,000		
Total in gold	$262,743,053		
In silver in Treasury	16,315,505		
Together		279,058,558	
Uncovered fiduciary circulation			257,894,198
Covered by gold		$262,743,053	
Covered by silver		16,315,505	
			279,058,558
Gold certificates			122,985,889
Silver certificates			282,949,073
Silver money, standard dollars			61,266,501
Gold money in Banks other than the National Banks			34,000,000
Gold coin distributed in the country			190,441,049
Subsidiary coinage in Treasury		$21,927,928	
„ „ circulation		54,771,288	
			76,699,216
Total			$1,305,294,484

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SUMMARY—		
Uncovered fiduciary circulation		$257,894,198
Gold Money—		
Reserve of fiduciary circulation	$262,743,053	
Certificates	122,985,889	
In the Banks	34,000,000	
In the hands of the public	190,441,049	
		610,169,991
Silver Money—		
Reserve of fiduciary circulation	$16,315,505	
Certificates	282,949,073	
Standard dollars in circulation	61,266,501	
		360,531,079
Subsidiary Money—		
Various denominations		76,699,216
Total		$1,305,294,484

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NOTE B

MONETARY CIRCULATION OF THE UNITED STATES
30TH JUNE 1873

Gold money		$135,000,000
Gold certificates		39,460,000
Silver money		1,149,305
Subsidiary silver money		5,000,000
Subsidiary paper money		44,799,365
Bank notes		347,267,061
State notes		387,730,000
Various old notes		2,100,656
Total		$962,506,387
From which deduct—		
Gold money in Treasury	$72,281,687	
„ „ Banks	3,370,378	
Gold certificates in Treasury	5,208,680	
„ „ Banks	22,139,000	
Silver money in Treasury	1,149,305	
Subsidiary silver money in Treasury	905,344	
„ „ Banks	2,440,618	
Bank notes in Treasury	8,304,586	
„ „ Banks	26,955,726	
State notes in Treasury	39,265,000	
„ „ Banks	137,996,000	
		320,016,324
Net amount		$642,490,063

THE END

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